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MARINE CORPS STOCK FUND, 1953-1967.

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MARINE CORPS STOCK FUND

1954-1967

By

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A Thesis Submitted to the School of Government and Business Administration of The George Washington University in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration

June, 1968

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CHAPTER I

INTRODUCTION

Stock funds originated in the military departments in 1893 when the Congress sanctioned the Naval Supply Fund. Since that time, they have become a financial management tool for use in controlling vast quantities of the military inventory.

The size, scope, and modus operandi of the stock funds vary considerably among each of the military services. This disparity is analagous to many other conditions that exist in the Armed Forces, where a basic directive is subject to varying interpretations and implementations.

The National Security Act Amendments of 1949 authorized and encouraged the use of stock funds. The Secretary of Defense was empowered by law to make the use of stock funds mandatory; however, discretionary powers regarding the implementation were also given. This flexible "mandate" exists to the present date, and all services react accordingly.

The Marine Corps Stock Fund was not established until July 1, 1953. Participation in the "Korean Conflict" was a partial cause for the delay but pressure from the Congress

mounted and a charter was obtained to commence operations under the stock fund technique on July 1, 1953.

As mentioned above, each of the military services interpreted the guidance given by the Department of Defense differently. The purpose of this thesis is to explore the results of the Marine Corps' effort to employ the stock fund technique, to evaluate the progress that has been made in effecting economies, and to consider the future role of the stock fund.

The research leading to this paper consisted of an examination of primary source government documents relating to stock funds in the Army, Navy, Air Force and Marine Corps. Personal interviews conducted with officials who have administered stock funds were utilized to a maximum. Numerous articles, reports and theses were reviewed.

Chapter II discusses the concept and the use of stock funds in the management, control, financing and accounting of inventories. The merit of financing inventories through this medium in the military services, when compared with a free issue system, is given brief coverage.

Chapter III reviews the historical development of stock funds within the Department of Defense. Particular emphasis is placed on the planning conducted by responsible officials at Headquarters, Marine Corps in implem Marine Corps Stock Fund.

Chapter IV reviews and discusses the problems in arriving at general agreement on the criteria to be applied in determining the items to be included or excluded from the Marine Corps Stock Fund. The different interpretations of the Department of Defense policies by the Marine Corps and the other military services are covered.

Chapter V provides an analysis of the Marine Corps' experience in the management of stock funded inventories during the period Fiscal Years 1954 through 1967. A comparative analysis of the Marine Corps Stock Fund with other military service stock funds, in the material categories where commonality exists, is included.

Chapter VI provides a brief resume of the role of the Marine Corps Stock Fund under Project PRIME and of new definitions used in determining items to be included or excluded from the Stock Fund.

Chapter VII presents a brief summary of the report and the conclusions reached by the author.

CHAPTER II

THE NATURE OF STOCK FUNDING

A stock fund is a device employed by the military services to provide a simplified and effective means of managing, controlling, financing and accounting for specified categories of supplies and equipment.

The stock fund concept is that of a revolving fund, with a generally fixed capitalization. Reimbursements and collections are returned to the fund for re-use in a manner that will maintain the fund principal. The operation of the stock fund cycle requires customers to reimburse the fund by using available consumer (appropriated) funds. Except for an occasional "free" issue to countries under the Military Assistance Program (Grant Aid), there are no free issues in this cycle.

The amount of supplies ordered by users is normally controlled by the amount of appropriated funds available to them. Under this system, allotments of annually appropriated funds are made available to posts, stations, and activities, in conformance with approved command operating budgets. Portions of these funds are programmed for the pay of civilian

personnel, travel, and other services, and for purchasing supplies from the stock fund. When used in this manner, they are known as "consumer funds."

Chart 1 oversimplifies the operational aspects of the stock fund. Consider that the stocks in the barrel have been priced and capitalized into the stock fund. The right side of the chart illustrates that point in time when the fund sells stocks already in the barrel to the consumers. The consumer replenishes the barrel by utilizing appropriated funds to reimburse the stock fund. The reimbursement transaction results in the accumulation of "stock fund cash" which the supply manager uses to procure other stocks to replenish the barrel.

When a stock fund item is sold (issued) to a user, the cost of the item is charged to the operations of the applicable consuming activity. This is accomplished by recording the costs in financial cost accounts, which are used to reflect and control the amount of operating cost of a particular activity. When coupled with work units accomplished and engineered and other performance standards, these costs help to measure the effectiveness and efficiency of the operating agency. Experienced cost and performance information is then utilized as a basis for ascertaining the effectiveness of performance budgets.

The stock fund operation offers a tremendous challenge to the inventory manager. The problems faced in the operation

WHAT IS A REVOLVING STOCK FUND ?

A MEANS OF FINANCING A CYCLE OF PROCUREMENT AND INVENTORY OPERATIONS

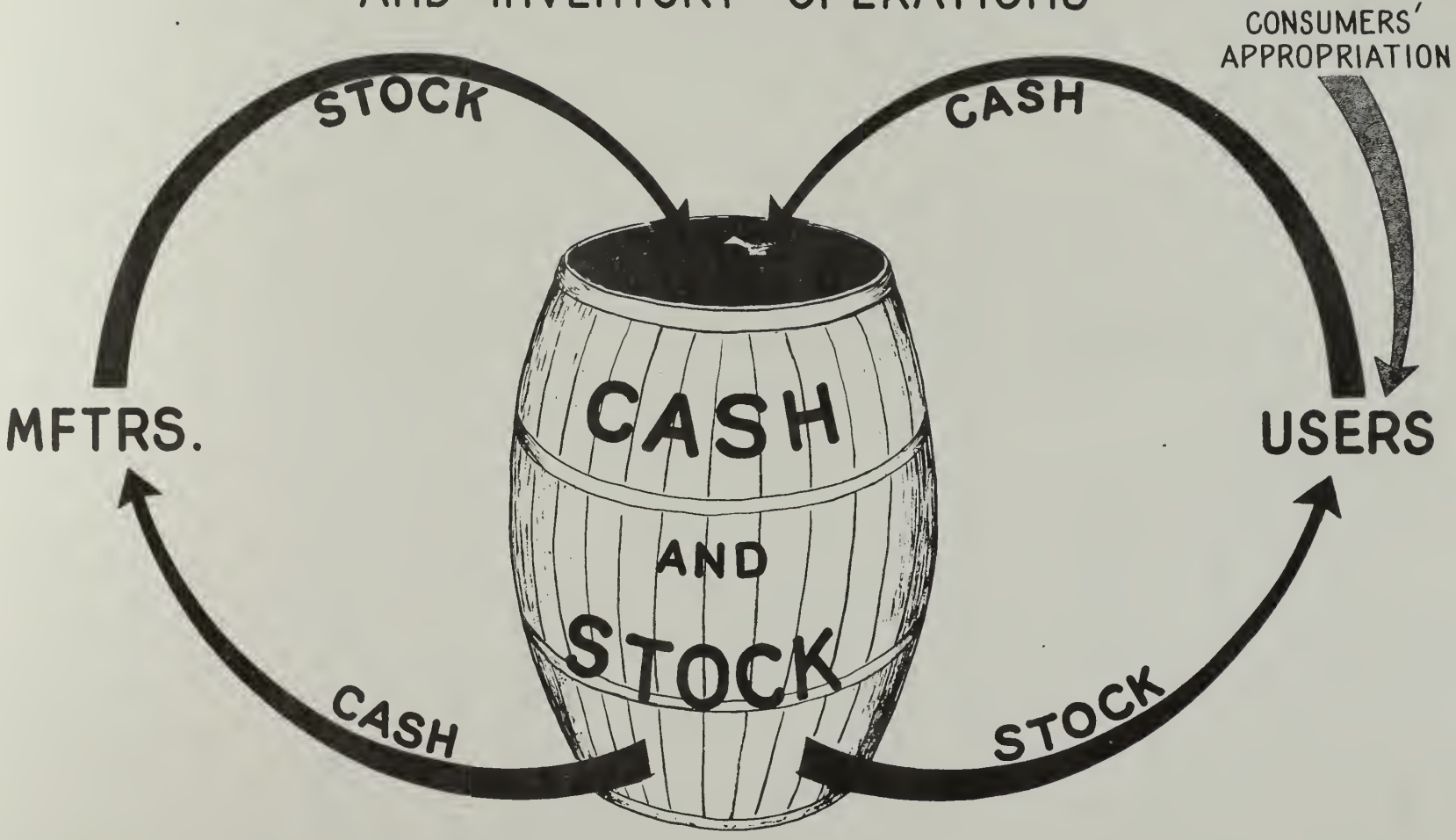

CHART 1

of a stock fund are similar to those faced in any large commercial merchandising operation. Proper management demands an awareness of fundamental business concepts and indicators, and also requires sound lines of organizational authority with responsive budgetary and accounting techniques.

It is true that accounting for the dollar value of supplies purchased, those on hand, and those that have been consumed can be accomplished without the use of stock funds. Further, most authorities agree that using such funds to finance technical items with low turnover is not practicable. Although stock funds cannot cure all the faults of poor supply management, their use does simplify accounting and budgeting. Stock funds can improve the ability of a good manager to do an effective job in purchasing and in inventory control. It is also generally acknowledged that the use of stock funds simplifies Congressional control of operations by clearly distinguishing consumption from supply. This allows the Congress to maintain control over consumption by the appropriation process with better knowledge of previous consumption and of quantities of repetitive-use material on hand.[1]

More often than not when stock funds are discussed the emphasis has been on their contribution to more effective

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[1]U.S., Congress, House, Committee on Government Operations, Military Supply Management, Third Intermediate Report, July 16, 1953 (Washington: Government Printing Office, 1953), p. 15.

management. Mr. W. J. McNeil, former Assistant Secretary of Defense, has often voiced his enthusiasm for the increased use of stock funds in the Department of Defense, both during his tenure in office and later, but probably never more eloquently than when testifying before the Senate Committee on Government Operations in 1961 just after Charles J. Hitch, his successor, initially presented his programming-planning-budgeting system.

Mr. McNeil stated that:

> The full use of the tools provided by Congress in title IV of the National Security Act will, in my opinion, produce more savings, or saying it another way, more defense for the resources provided than the value of all the mistakes in judgement or errors concerning weapons which are made and which will probably continue to be made by the Department of Defense.
>
> Everyone would agree that it is of vital importance that the hundred or so major programs of the Department receive every attention.
>
> However, someone has to look at the myriad of minor programs and transactions which in the aggregate involve huge sums. The problem of the management and control of maintenance and operations, and the utilization of personnel is the hardest to get at and the most difficult to solve.
>
> Here organizational and financial arrangements which 'make human nature work for us rather than against us,' are most helpful. A broad area where such arrangements can be applicable is the greater use of working capital funds . . .
>
> Congress has authorized and urged the establishment of what have been called stock funds. In effect, these are 'merchandising institutions' for the management and control of consumable-type inventories. Under such an arrangement, nothing can be withdrawn from inventory without a charge being made against current operating funds within levels

> established by Congress and the Executive branch. Experience has shown that responsible commanders and managers immediately assume greater responsibility for the proper use of material when accountable in such a manner. Free issues of such material from stock are conducive to carelessness or waste. Accounting or statistical reports after the fact will never do the job. While real progress has been made in establishing such merchandising arrangements, and in their use, much more can be done.[1]

Prior to the inauguration of the stock fund technique, inventories of consumable supplies owned by the military services were controlled by quantities. Issues out of stocks were measured only in units, which did not provide an adequate control over usage. Consumption of supplies and materials by the consuming activity were not always recorded or effectively controlled.[2] In like manner, stocks discarded because of deterioration, obsolescence, unsuitability to current needs, or changes in design or style or for any other reason were recorded only in units. There was no practical way to measure the dollar costs of inventories on hand or the relationship of issues and discards. Once an item was purchsed, its dollar cost was no longer of significance as a control factor. Accountability for inventories under such a system was little more

---

[1]U.S. Congress, Senate, Subcommittee of the Committee on Government Operations, Hearings, National Policy Machinery, 87th Cong., 1st Sess., 1961, p. 1063.

[2]U.S. Department of Defense, Working Capital Funds, A Report to the Secretary of Defense by the Assistant Secretary of Defense (Comptroller), Fiscal Year 1954, p. 14. Cited hereafter as Working Capital Funds.

than a responsibility to physically safeguard assigned stocks no matter what their condition or service value might be. Poor inventory management and unsound administrative policies could not be readily subjected to the light of full disclosure at all levels.[1]

The aforementioned aspect of quantitative accountability with its assigned responsibilities was important, of course, and even under the stock fund remains unchanged. Under stock fund procedures, however, this accountability is supplemented by more stringent requirements. Any actions affecting inventories caused by issuance for use or discarding of items must be disclosed in terms of dollar cost. Thus the full ramifications of inventory control actions are susceptible to ready identification, interpretation and evaluation at all levels. Even a lack of positive action, when such may be indicated, becomes evident by the increased amount of dollar investment in inventories.[2]

The basic principles and objectives of the stock fund are quite simple. In essence, the dollar cost of each transaction must be shown and an accounting in dollars for all materials accepted into and issued from the inventory must be enforced. A fundamental tenet of the stock fund concept of

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[1] Ibid. [2] Ibid.

operations is that once an item of supply is purchased by and placed under control of a stock fund it must be accounted for, in dollars, until it is either charged to a consumer appropriation, transferred to some other accountability, or disposed of as no longer of use to the fund. In any event, the cost of all transactions or actions in terms of dollar costs of materials involved must be disclosed in financial statements.[1]

It is interesting to note that prior to the use of the stock fund with its requirement for dollar reporting, the passage of time tended to obscure ineffective or poor procurement policies. Under the stock fund the opposite is true, in that the passage of time brings with it inevitable disclosure of ineffiencies and policy errors, because of enforced dollar accounting. The use of dollar accounting and control of inventories also lends itself to greater use of cross servicing and to the implementation of performance-type budgeting.[2]

Inventories of consumable materials, within the military services, represent an investment of billions of dollars. Upon capitalization a large part of these inventories are financed out of prior years' appropriations. These inventories are comprised of hundreds of thousands of different type line items. Prior to the use of the stock fund technique there was no

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[1] Ibid.

[2] Ibid., p. 15.

common denominator by which budget requests could readily be compared with available inventories on hand or on order. The stock fund uses the dollar as the common denominator, with operating and financial reports furnishing in readily understandable form much of the information required for intelligent budget review, in relation to available assets, and for effective inventory management. It is almost impossible to compare results realized under current stock fund techniques with those in practice in prior periods on any comprehensive monetary basis. This is principally due to the fact that results in prior periods are obscure and generally not available.[1]

Since the introduction of stock funds in the Defense establishment, substantial savings have been effected, as revealed in Table 1. Through Fiscal year 1967, Defense Stock Funds have returned over $3 billion to the United States Treasury for reappropriation or other use by Congress.

The establishment of a stock fund does not in itself solve any problems or create efficiency. Regardless of how material is financed, sound inventory accounting, control, and management criteria must be emphasized to meet the demands of national defense at the least cost. This problem is one of no meager magnitude both in relation to operating performance and dollar investment. Failure to balance inventory against

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[1] Ibid.

requirements can produce untold waste, while failure in the management of these functions may even cause defeat in battle.

TABLE 1

DEPARTMENT OF DEFENSE
STOCK FUNDS
CUMULATIVE SUMMARY OF APPROPRIATIONS AND REAPPROPRIATIONS
FISCAL YEARS 1950 - 1967

(Thousands of Dollars)

	Combined Total	Army	Navy	Marine Corps	Air Force	Defense Stock Fund
Balance - June 30, 1949	$ 862,587	$ ---	$ 862,587	$ ---	$ ---	$ ---
Changes During Fiscal Years 1950-1967						
Congressional appropriations 1/	1,198,000	421,000	670,000	---	---	107,000
Congressional recisions	(3,049,000)	(1,642,000)	(979,000)	(53,000)	(375,000)	---
Transfers from other appropriations	1,420,400	354,100	430,000	40,000	596,300	---
Transfers to other appropriations	(3,293,054)	(1,989,254)	(605,000)	(115,500)	(193,300)	(390,000)
Transfers between stock funds	---	(45,000)	20,000	15,000	---	10,000
Total Changes 2/	$(3,723,654)	$(2,901,154)	$(464,000)	$(113,500)	$ 28,000	$(273,000)
Balance - June 30, 1967	$(2,861,067)	$(2,901,154)	$ 398,587	$(113,500)	$ 28,000	$(273,000)

1/ Includes the following increases for FY 67: Army $351 million, Navy $77 million, Defense Stock $107 million.
2/ Entries in parentheses on this line indicate that recisions and transfers to other appropriations exceed Congressional appropriations and transfers from other appropriations in the amount shown.

Source:

Working Capital Fund, June 30, 1967, p. 73.

An item is procured, stored, and recorded for use as needed. Thousands of items must be identified against need and use, and related to their counterparts, for classification in the organization for a complete element or facility. The depot must always have what is needed, in amount, type and kind as the demand exists or develops. The center around which

control revolves is the positioning or physical distribution of an item. It may be called a storeroom, depot or storage point, or a warehouse, but no matter what it is called, it is the "operating point" about which people must work, plan, and manage inventories in order to do an adequate and comprehensive job. Here, inventory accounting, control and management constitutes a major business area.[1]

The effective use of stock funds in the Department of Defense as a tool to better supply management was aptly recognized in 1954 when the United States Marine Corps was completing its first year of operations under this technique. The Cooper Committee in its report to the Secretary of Defense stated that better supply management was achieved through:[2]

> Encouraging the putting of all common-use stores under one management in each service, with the possibility of accomplishing savings in purchase, inspection, storage, and transportation due to the elimination of duplication of items in different supply systems of each military service.
>
> Inducing a systematic and cyclic review of requirements for buying in the most economical lots and when market conditions are most advantageous.

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[1] U.S. Department of Defense, Report of Inventory Activities Working Group on Inventory Accounting and Management Criteria. Prepared for Advisory Committee on Fiscal Organization and Procedures (Office of the Secretary of Defense, July, 1954), p. i.

[2] Ibid., p. 104.

Eliminating the tendency on the part of inventory managers to over-procure in order to use up annual appropriations.

Directing greater attention to sound and uniform pricing.

Encouraging better supply discipline and accountability through elimination of free issues and inducement of personal responsibility.

The financing of common-use, consumable-type items with stock funds provides controls over procurement and consumption which are not present under a free issue system. With the dollar as the denominator the consumer is limited by the Congress as to the amount of funds available for consumption. During a given year, however, the supply manager is only restricted to the dollar reinvestment in inventory based on ongoing sales. Thus, if the inventory is excessive in those items for which the consumer has requirements, reinvestment is not immediately required. The use of this technique has resulted in substantial savings as indicated, which would conceivably not have been possible under the free issue system. Mr. McNeil and the Cooper Committee have justifiably supported the use of stock funds by the military services in achieving economies and efficiency. At the time the respective statement and report were made, stock funds had proven an invaluable financial management tool for many years with the Navy and more recently with the other military services.

CHAPTER III

HISTORICAL DEVELOPMENT OF STOCK FUNDS WITHIN THE DEPARTMENT OF DEFENSE

The stock fund is not a recent innovation. It has been employed for many years with much success, particularly by municipalities.[1] The first of such funds was established in the United States Navy in 1893. On March 3 of that year the Congress passed an act creating the "Naval Supply Fund," which was credited with $200,000 for the purchase of ordinary commercial supplies.

> And the Secretary of the Treasury is hereby authorized and directed to cause general account of advances to be charged with the sum of two hundred thousand dollars, which amount shall be carried to the credit of a permanent naval supply fund to be used under the direction of the Secretary of the Navy in the purchase of ordinary commercial supplies for the Naval service, and to be reimbursed from the proper Naval appropriations whenever the supplies purchased under said fund are issued for use.[2]

Three features of this act merit special attention. The first was the fact that money was appropriated or transferred

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[1]James F. Unger, "A Critical Analysis of the Army Method of Determining the Cost and Selling Prices of Inventory Items." (Unpublished Master's thesis, University of Pennsylvania, 1959), p. 8.

[2]U.S., 27 Statutes, 723, Act of March 3, 1893.

from the "General Account of Advances," (a fund consisting of the sum total of all Naval appropriations) and not from the general fund of the Treasury. Second, it stipulated that only ordinary commercial supplies could be purchased with the fund. And finally, reimbursement from the proper appropriation was to be made upon issue of stock from the fund. During the ensuing period from the fund's inception, the Naval Supply Fund continued to increase in size and scope to include ship repair parts and other technical items.

In 1939, the Navy requested an additional one million dollars for the Naval Supply Fund to cover the purchase of aeronautical and ship material which was creating a significant burden on the cash position of the fund in support of the operating forces. The request was denied because Congress thought that the larger part of this material was to be purchased for immediate use and should be purchased under the appropriation concerned.[1] As a result, technical items had to be financed with annual appropriation funds.

Prior to the outbreak of World War II, inventories aboard ships were carried in the Naval Supply Fund, and were accounted for in the same manner as stores held by shore activities. When shipboard stores were issued for end-use, the

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[1]U.S. Department of the Navy, Bureau of Supplies and Accounts, History of Navy Stock Fund and Naval Supply Account, 1945, p. 68. Cited hereafter as History of Navy Stock Fund.

proper appropriation was charged and the Naval Supply Fund was reimbursed.

During the Congressional hearing of 1939, the Navy pressed for additional money to finance larger stocks of items which had a large turnover rate so that greater economy in purchasing could be brought about. Congress was less than receptive to proposals for increasing appropriations that year, and suggested that as an alternative, stores should be expended to the appropriation which would ultimately use them at the time they were put aboard a vessel. Such a procedure would speed up reimbursement to the fund, with the net effect of increasing fund cash with which to finance larger stocks. The Navy objected on the basis that there was no way to determine the appropriation which would finally use the stores.

Because of the considerable paperwork involved in carrying shipboard inventories in the Naval Supply Fund, and because such accounting was not considered feasible in wartime, Congress passed the following law:

> Naval Supply Account Fund, $160,000,000: Provided, that the value of the balances of supplies and materials on board Naval vessels on January 1, 1942 shall be expended from the Naval Supply Account as directed by the Secretary of the Navy, without charge to current appropriations.[1]

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[1]U.S., 57 Stat. 79 Act of February 7, 1942.

With the removal of certain technical items from the Naval Supply Fund, the term stock fund was first introduced. The fund was now able to function as a storekeeping account and was redesignated as "The Naval Stock Fund."[1] The concept was not extended, however, to the Marine Corps or the Army.

After World War II, the need for improved financial management within the Federal Government was evident from the findings of the First Hoover Commission. The Commission found that there was a colossal need to reform the methods of budgeting, in the appropriation structure and in the Federal Government's accounting system. It stated in its report on budgeting and accounting: "The Federal budget is an inadequate document, poorly organized and improperly designed to serve its major purpose, which is to present an understandable workable financial plan for the expenditures of the Government."[2] A major budgetary reform was proposed by the Commission in Recommendation No. 1 of its Report on Budgeting and Accounting: "We recommend that the whole budgeting concept should be refashioned by the adoption of a budget based upon functions, activities, and

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[1] History of the Navy Stock Fund, p. 68.

[2] U.S. Commission on Organization of the Executive Branch of the Government, Budgeting and Accounting: A Report to Congress (Washington: Government Printing Office, 1949), p. 7. cited hereafter as Commission on Organization, Budgeting and Accounting.

projects. This we designate a 'performance budget.'"[1]

This recommendation was supplemented by the following proposal of A. E. Buck in the Commission's Task Force Report:

> A program or performance budget should be substituted for the present budget, thus presenting in a document of much briefer compass the Government's expenditure requirements in terms of services, activities, and work projects rather than in terms of things bought. Such a budget should not detract from congressional responsibility and should greatly improve and expedite committee consideration.[2]

To support its contention the Commission pointed out the following:

> . . . an examination of the 1950 budget revealed estimates requesting modernization of 102 more tanks of a certain type than the Army actually possessed. In another case a misplaced figure added some 30 million dollars to the budget estimate.[3]

Understandably, with defense costs rising, the separation of unit accounting from financial accounting could no longer be tolerated. Adoption of a system combining inventory and financial accounting was a necessity if the government was to achieve maximum utilization of its resources. The Hoover Commission stressed this in stating:

> We hold as a matter of conviction, based on our individual and collective observations and experience in

---

[1] Ibid., p. 8.

[2] U.S. Commission on Organization of the Executive Branch of the Government, Task Force Report, Fiscal Budgeting, and Accounting Activities, A Report to Congress (Washington: Government Printing Office, 1949), p. 43.

[3] Commission on Organization, Budgeting and Accounting, pp. 39-44.

> government as well as outside of it, that a strong accounting department . . . is as necessary to the success of government as it is to the success of private enterprise.[1]

As indicated in Chapter II, financial inventory accounting is a prerequisite to the establishment of a stock fund. This additive feature to quantitative control was in accordance with the following recommendation of the Commission: "The armed services should at least in peacetime keep complete, accurate, and current inventories."[2]

The Congress, in the enactment of the 1949 Amendments to the National Security Act of 1947, was without a doubt greatly influenced by the recommendations of the Hoover Commission as supplemented by the testimony of expert witnesses during the Congressional hearings on the bill. The case for the establishment of stock funds within the Department of Defense was reinforced by the testimony of Mr. W. J. McNeil, who later accepted the appointment as Assistant Secretary of Defense (Comptroller), who stated:

> The Department of the Navy has had this very excellent tool for management for 54 years. It started 54 years ago, as a rather small business operation, and was very helpful in World War I. It was carried on in a substantial size through the twenties and thirties and stood the test of World War II in excellent fashion.[3]

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[1] Ibid. [2] Ibid.

[3] U.S. Congress, Senate, Committee on Armed Services, National Security Act Amendments of 1949 (Washington: Government Printing Office, 1949), p. 2669.

The 1949 amendments to the National Security Act of 1947 provided that the budget estimates of the Department of Defense:

> . . . shall be prepared, presented, and justified, where practicable, and authorized programs shall be administered, in such form and manner as the Secretary of Defense, subject to the authority and direction of the President, may determine, so as to account for, and report, the cost of performance of readily identifiable functional programs and activities, with segregation of operating and capital programs.[1]

In this manner, the Secretary of Defense was given greater authority over financial management in the Department, and the Congress also required that he submit "performance budgets" thereafter. Accordingly, the budget and accounting structures of the military departments were simplified and made more uniform. Broad classifications such as Personnel, Operation and Maintenance, Procurement, Research and Development, and Construction replaced antiquated appropriation categories under which the technical services of the Army and the Naval bureaus had received and administered their own separate appropriations.

Another notable innovation of the National Security Act Amendments of 1949 was the creation of the position of the Assistant Secretary of Defense (Comptroller) and that of the comptrollers in each of the three military departments. Known as

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[1]U.S. Congress, National Security Act Amendments of 1949, Public Law 216, 81st Cong., 1st Sess., 1949, p. 10.

Title IV to the act, this portion prescribed the duties of the Comptroller of the Department of Defense and the military department comptrollers.

Section 401 of the amendments set forth the responsibilities of the Comptroller of Defense generally as:[1]

1. The supervision and preparation of budget estimates.

2. The establishment, supervision, and execution of principles, policies, and procedures in connection with organizational and administrative matters relating to budgeting, accounting, progress and statistical reporting, and internal audit.

3. The establishment of policies and procedures relating to the expenditure and collection of funds administered by the department.

4. The establishment of uniform terminology and procedures in all such matters.

In Section 402, Congress directed attention to the military department comptrollers. It specified that each was responsible for all budgeting, accounting, progress and statistical reporting, and internal audit in his respective department and for the administrative organizational structure and managerial procedures related thereto.[2]

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[1] Ibid., p. 9.

[2] Ibid., p. 10.

Title IV also lays the foundation for the use of working-capital funds within each department. Section 405 provides that:

> . . . the Secretary of Defense is authorized to require the establishment of working-capital funds . . . for the purpose of . . . financing inventories of such stores, supplies, materials and equipment as he may designate . . .[1]

Finally, Section 410 established the requirement for overall financial records of inventories in the military services. This section provides:

> The Secretary of Defense shall cause property records to be maintained in the three military departments, so far as practicable on both a quantitative and monetary basis, under regulations which he shall prescribe. Such property records shall include . . . the supplies, material, and equipment held in store by the armed services. . . .[2]

The foundation was now laid for the employment of new inventory and financial management techniques within the military services. By installing financial inventory accounting, the services were put on a more business-like basis and given the capability of producing financial statements and reports of the same type that are required in private corporations.

The Army and the Air Force followed the Navy's example of financing of consumable supplies through the stock fund medium in 1950.[3] The experience of these services in a large

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[1] Ibid., p. 11. [2] Ibid.

[3] Working Capital Funds, 1954.

measure provided guidelines which the Marine Corps followed a few years later. Delayed by involvement in the "Korean Conflict" the Marine Corps established its stock fund in Fiscal Year 1954.

The die was cast, however, when an amendment to the Department of Defense Appropriation Act of 1953 prohibited the obligation of funds "for procurement, production, warehousing; distribution of supplies and equipment, as related to supply management functions, except in accordance with regulations issued by the Secretary of Defense."[1] This action by the Congress reflected its dissatisfaction with the efforts within the Department of Defense to establish unified supply procedures. The legislation was approved on July 10, 1952 and on September 5, 1952 the Department of Defense issued a directive prescribing regulations applicable to the military supply system. The purpose of the regulations was to implement the legislation and to achieve an efficient and practical operation of an integrated supply system (including procurement, production, warehousing, and distribution of supplies and equipment and related supply functions) to meet the needs of the military departments without duplicating or overlapping of either operations or functions.[2]

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[1]Public Law 488, 82nd Cong., 55 Stat. 517.

[2]U.S. Department of Defense, Establishment of Basic Military Supply Systems Regulations, DOD Directive 4008.8 of September 5, 1952.

A revision in this directive in November, 1952 stated that all existing directives regulating supply were to be regarded as implementing the legislation. The directive further specified that:

> The basic Regulations set forth important and desirable objectives in the field of supply which are to be implemented as fast as practicable. . . .
>
> Procurement will be in accordance with procedures which include timely submission of consolidated requirements, the phasing of requirements, market analyses, phased placement of orders, and phased delivery schedules . . .
>
> Within each military service (Army, Navy, Marine Corps and Air Force) there shall be established and maintained but one single supply and inventory control point for each specified category of items. . . .
>
> . . . fuels and lubricants, household and office type furniture and material, general housekeeping material, individual clothing and equipment, and vehicular spare parts. . . .
>
> Stocks of common-use standard stock items will be financed through Stock (revolving) Funds. Special attention shall immediately be given to all categories of common-use standard stock items. . . .[1]

The directive further stated that the cataloging and standardization programs were to be vigorously pursued. The Defense Cataloging and Standardization Act of 1953 established a Defense Supply Management Agency in the Office of the Secretary "to develop a single catalog system and related program of

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[1]U.S. Department of Defense, Basic Regulations for the Military Supply System, DOD Directive 4000.8, November 17, 1952. Cited hereafter as DOD, Basic Regulations for the Military Supply System.

standardizing supplies for the Department of Defense."[1] These programs were to have a significant impact on the Marine Corps Stock Fund in light of later developments relating to the management of supplies within the Department of Defense. Each of these programs is worthy of separate study and detailed analysis; however, without detracting from their importance, only a superficial treatment will be presented here in relation to the Marine Corps Stock Fund.

Briefly stated, the objectives of the cataloging and standardization programs were as follows:

Cataloging. - Provided for the description, identification, classification, and numbering for each item in all material categories.

Standardization. - Geared to achieve, through the use of a single specification, the elimination of overlapping and duplicating specifications, and the reduction and elimination of number of sizes, kinds and types of generally similar items.[2]

The Secretary of the Navy lost little time in implementing the Department of Defense Directive applicable to financing common-use standard-stock items by the Marine Corps. In early September 1952, he drafted a letter directing the Commandant

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[1]Public Law 436, 82nd Cong., 66 Stat. 318.

[2]DOD, Basic Regulations for the Military Supply System, p. 5.

to accomplish the establishment by July 1, 1953 of a revolving fund for financing common-use standard-stock items and sent it to Marine Corps Headquarters for comment and concurrence. The Commandant, in reply, concurred with the Secretary, but took exception to the date proposed for conversion as follows:

> It is considered that it will not be feasible for the Marine Corps to have a revolving fund in full operation on 1 July, 1953. An orderly cut-over from the present system of accounting to the revolving stock fund will require development of an organization and training of personnel in fields completely new to the Marine Corps, to include pricing of items, and analysis and auditing of financial records. It has been the experience of the Army that twelve (12) months is required to place in operation a fund of this nature for a single category of items; i.e., clothing and equipage.[1]

The Commandant recommended that the date for commencing operations be extended to July 1, 1954 and also that when regulations governing the use of stock funds were issued by the Secretary of Defense (Comptroller) that the Marine Corps and the Comptroller of the Navy be directed to establish a joint working panel to formulate procedures necessary for Marine Corps' compliance.[2]

The Secretary's position was firm, however and within nine days after the submission of the Marine Corps' reclama, in a letter directive to the Comptroller of the Navy, the

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[1]Letter from the Commandant of the Marine Corps to the Secretary of the Navy, September 17, 1952.

[2]Ibid.

Commandant of the Marine Corps and the Chief of Naval Material he confirmed his decision and provided a plan of action:

> It is essential that immediate action be taken to accomplish the establishment of a revolving fund for the use of the Marine Corps for financing common-use standard stock items. This timely action should insure a conversion of the funding of the inventories of this category of stocks at all major Marine Corps Supply depots by 1 July, 1953 or as soon thereafter as practicable. To this end the following specification must be initiated without delay:
>
> An estimated developed amount of money which will be required to finance the inventory necessary to sustain the logistic support of the Marine Corps; referring of course only to common-use standard stock items. This estimate of requirements should be included in the 1954 budget request.
>
> A task force composed of representatives of the Marine Corps and the Office of the Comptroller of the Navy should be organized for the purpose of vigorously pursuing this project, and directing actions necessary to an orderly cut-over activity by activity, so that on 1 July, 1953 the revolving stock fund will be in operation in appropriate fields in consonance with the Department of Defense policy.
>
> In order to carry out this directive and to provide liaison with the Department of Defense on matters pertaining to policy guidance, interpretations of reference and in particular to stock fund regulations shortly to be promulgated by the Secretary of Defense, I desire the Comptroller of the Navy, together with the Commandant of the Marine Corps and the Chief of Naval Material to establish a joint working panel for the purpose of developing and directing the implementation of actions necessary for compliance with the referenced directive. (DOD Directive 4000.8 of 5 September, 1952).[1]

The Navy's experience in the financing of consumables through the stock fund mechanism set the pattern for the course

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[1]Letter from Secretary of the Navy to Commandant of the Marine Corps, Comptroller of the Navy and Chief of Naval Material, September 26, 1952.

of action that the Marine Corps was to follow in readying the staff at Headquarters and all field activities to absorb the impact of the stock fund on Marine Corps operations.

A preliminary study was conducted by a special group of senior military officers and civilians of the Supply Department, Headquarters, Marine Corps to blueprint the course of action which the joint working panel would follow. On October 28, 1952, the group presented to the Quartermaster General of the Marine Corps a proposal based on the following assumptions.

> That the Marine Corps will be authorized to have its own stock fund . . .
>
> That the Quartermaster General of the Marine Corps will be the administrator of the Stock Fund.
>
> That the Marine Corps will be permitted to install the Stock Fund, project by project.
>
> That the Finance Branch, Supply Department, Headquarters, U.S. Marine Corps will maintain fiscal records to account for the Stock Fund.
>
> Supply and Inventory Control points will be at Headquarters U.S. Marine Corps.[1] (Note: In 1956, Supply and Inventory control functions for stock-funded individual clothing, electronics, engineer, general supply, motor transport and ordnance items moved to Marine Corps Supply Activity, Philadelphia, Pennsylvania.)

The Task Force found that the material categories in existence within the Marine Corps Supply System were readily

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[1]Letter from Colonel Earl H. Phillips, USMC, Senior Member, Prospective Task Force for Stock Fund Project to the Quartermaster General of the Marine Corps, October 28, 1952.

identifiable, consistent with supply groupings used by other military departments, and met the requirements established by the Department of Defense.

The following priorities for the capitalization of items by material category into the Stock Fund were identified:

Subsistence
Individual Clothing
General Stores
    Electronics Supply items
    Engineer Supply items
    General Supply items
    Motor Transport Supply items
    Ordnance Supply items.[1]

Recognition of the tasks to be performed prior to the Stock Fund becoming operational were developed. They were as follows:

> Determination of items to be included in each project.
>
> Estimate initial working capital requirements . . .
>
> Promulgation of a system of coding stock fund items according to transactions.
>
> Assignment of symbols to identify materials for supply and inventory control purposes.
>
> Expansion of Finance Branch . . . to maintain necessary ledgers to account for stock fund.
>
> Policy for determining prices . . .

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[1] Ibid., p. 2.

Determination of stock levels and policy for maintaining. . . .

Develop a . . . stores accounting system to reflect financial and quantity accounting. . . .

Devise and/or revise forms, catalogs and price lists to conform with stores accounting system.

Prescribe audits and audit agencies.

Provide guidelines for review of budget program.

Develop accounting manual(s) . . .

Modify current appropriation accounting procedures to have field allottees account for stock fund items.

. . . preparation of . . . charter.[1]

The program outlined was ambitious but received the approval of the Quartermaster General on October 29 and the Commandant of the Marine Corps on November 4, 1952.[2] The groundwork for the members of the joint working panel had been accomplished, and on November 6, 1952 the Secretary of the Navy formally approved the establishment of the Revolving Fund Task Force.[3]

On November 10, 1952, upon the recommendation of this Task Force, the Quartermaster General formally assigned

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[1]Ibid., pp. 3-4.

[2]Letter from Senior Member, Task Force for Revolving Stock Fund to the Commandant of the Marine Corps, December 4, 1952.

[3]U.S. Marine Corps, The Marine Corps Stock Fund Annual Report, Fiscal Year 1954, p. 1. Cited hereafter as Stock Fund Annual Report, 1954.

responsibilities to the Supply Sections, Headquarters Corps for identification of those common-use standard-stock items susceptible to financing by the Stock Fund.[1] Sections responsible for each category were designated as follows:

Category or Grouping	Responsible Section
Ordnance Items	Ordnance Supply
Electronics Items	Electronics Supply
General Supply Items	General Supply
Subsistence Items	Subsistence Supply
Engineer Items	Engineer Supply
Motor Transport Items	Motor Transport Supply
Individual Clothing Items	General Supply[2]

Chart 2 illustrates the format the Supply and Inventory Control points were to follow in making the report of items recommended for stock fund financing. Considering that 34,188 individual line items were initially capitalized into the Stock Fund, the task was monumental. The deadline date for reporting was January 15, 1953.[3]

The criteria to be observed in determining the classes of items to be included in the stock fund were specified as:

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[1]Letter from the Quartermaster General of the Marine Corps to Heads, Supply Sections, Supply Department, November 10, 1952.

[2]Ibid., p. 1. [3]Ibid., p. 2.

CHART 2

STOCK FUND ITEMS

SAMPLE

Date: 1 January 1953

Supply Classification: (General Supply)

STOCK NO.	NOMENCLATURE	UNIT OF ISSUE	QTY ON HAND	ISSUES F/ PAST 12 MONTHS	ESTIMATED ISSUES F/ NEXT 12 MONTHS	LAST PROCUREMENT		
						DATE	QTY	UNIT COST
41-H-187	HAMMER, carpenter's curved claw, bell face, wt. 1 lb.	ea.	10000	6775	7775	9/15/52	3000	1.02

NOTE: IN COMPLETING FORMAT LIST THE ITEMS BY CLASS AND IN STOCK NUMBER SEQUENCE.

1. In general there must be repetitive and frequently recurring demand for any category of items (or item) held by the Stock Fund so that the Stock Fund investment therein shall not become frozen. The item must be susceptible of normal inventory management without causing losses of capital in excess of that which can reasonably be recovered through pricing of issues to cover such losses. This is Sometimes referred to as 'The general prudential rule'.

2. Generally, the items which may be included in the Stock Fund shall be confined to those held for issue for supply purposes and not extended to include those held for capital investment or for use. In this connection the following types of items shall be excluded:

(a) Real estate, installed equipment, industrial and similar machinery and equipment issued and in use or held in stores for future use.

(b) Tanks, automotive vehicles, artillery and similar items.

(Components of the aforementioned items may be included in the Stock Fund if there is a recurring demand for them and so long as they are held in stores and are not in use.)

3. Firm, adequate and standardized specifications for the item must be available. Brand buying in lieu of specifications will be accepted in items customarily procured by brand standards.

4. A low rate of loss from obsolescence, deterioration or shrinkage can be determined.

5. Any individual item shall be excluded from the Stock Fund if it is not fully developed for use or application and there is a major contingency that it will not be stocked for continuing recurring use.

6. The Stock Fund shall not be used for financing the purchase of and investment in items for resale to personnel of the Armed Services primarily for their personal convenience with a mark up over cost to cover expenses or welfare contributions.[1]

Tentative mission and functional statements with an accompanying organizational chart for the Stock Fund Branch

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[1] Ibid., Enclosure (1).

were prepared and submitted, and they received approval by the Chief of Staff of the Marine Corps on December 23, 1952.[1] Progress by the end of January, 1953 revealed a clear picture of the planning which would culminate in complete implementation by the target date of July 1, 1953.[2]

In order for the stock fund to be an effective management tool, the needs of the consumer must be satisfied when demands are placed on the supply systems. Projected sales from the stock fund are therefore geared to estimated consumer purchases. Like the Hoover Commission and its concern over erroneous budget estimates, the Marine Corps Commandant in 1952 was equally concerned with the excess of stock fund type items held by consuming units. Although directives were in existence charging commanding officers to keep on hand only such articles as were actually required and which could be properly maintained and safeguarded, and ordering all excesses to be reported, he sent out a letter on March 23, 1952 which was straightforward and explicit. It stated:

> . . . recent review of some reports of the Audit and Inventory Teams reflects overages in single stock fund type items of as much as one thousand per cent in numb and thousands of dollars in value. Failure to correct this

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[1]U.S. Marine Corps, Headquarters, Assistant Chief of Staff G-1, Memorandum to the Chief of Staff, December 23, 1952.

[2]Stock Fund Annual Report, 1954, p. 2.

condition in the immediate future will place the Marine Corps in an untenable position with respect to obtaining appropriations. . . .

In view of this critical situation confronting the Marine Corps, commanders will take immediate action as follows:

a. Commanding Generals Fleet Marine Force, Pacific and Fleet Marine Corce, Atlantic will take such action as will insure as far as practicable the attainment of the exact authorized allowances by 1 July 1953 for all organizations under their respective commands.

b. Commanders of all non-Fleet Marine Force activities will:

(1) On the basis of directives . . . and the applicable Table of Organization, compile and maintain an up-to-date listing of items and numbers of each item which has been computed to be the stockage objective of his command.

(2) Consider the on hand, on order and consumption factors with relation to amounts computed in (1) above and determine the estimated excesses as of 1 July 1953.

(3) Cancel requisitions, where applicable, to achieve objective.

(4) Prior to 1 May 1953 submit a list . . . showing by item, the estimated quantities of each which will be on hand in excess of the stockage objective plus ten percent (10%), as of 1 July 1953. . . .

(5) Requisition items in short supply so that stockage objective will be met by 1 July 1953.[1]

The importance of these actions and the seriousness of the need for corrective action was emphasized in the following statements:

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[1]Letter from the Commandant of the Marine Corps to All Commanding Officers, March 11, 1953.

> All Commanders are directed to stress the requirement for a high standard of performance on the part of their subordinate commanders relating to their supply responsibility, and to be severe in making fitness reports of those officers failing to display the proper concern and attitude toward economy in supply management.
>
> In all cases where Inspector General reports, Audit and Inventory Team reports, or other reports of inspection indicate lack of efficient supply management within a command, the Commandant will take the necessary action to see that the records of the Commanding Officers concerned reflect such failure to effect economy in management.[1]

The excess listings were processed by the Supply and Inventory Control points and, where considered economical, commanding officers were directed to return selected items to the supply system.[2]

The action by the Commandant affected the Stock Fund in at least three ways:

1. It reduced requirements for procurement of some items by the Stock Fund after capitalization.

2. It hastened procurement from the Stock Fund by the consumer for those items which had to be replaced beginning with the first month under Stock Fund operations.

3. It contributed to the generation of excesses which were to be identified later.

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[1] Ibid., p. 2.

[2] Interview with James F. Hoettels, Director, Stock Management Division, Supply Department, Headquarters, U.S. Marine Corps, January, 1968.

The task list, introduced on page 31 served as an invaluable aid in the design, organization, and development of policy and procedures under the stock fund environment. The efforts of the Task Force progressed with such satisfaction that on March 17, 1953 a recommended charter was forwarded to the Secretary of the Navy with a request that he obtain approval of the Assistant Secretary of Defense (Comptroller).[1] The charter was approved by Mr. McNeil on June 1, 1953. (See Appendix A) Stores accounting instructions were prepared and distributed to participating field activities on April 15, 1953.

Accompanying guidance provided for replacement of the existing accounting system with the new system on a memorandum basis commencing June 1, 1953.[2] This informal system was formalized on July 1, 1953 into the stores accounts in existence today which identify items in the supply system as Stock Fund (Marine Corps Stock Fund Account) and "free" issue (Marine Corps Appropriation Stores Account). These accounts distinguish the items to be excluded from the appropriation stores account and included in the stock fund account. The criteria for making such determination is discussed in Chapter IV.

In early June, 1953, the President of the United States approved the transfer of funds from Fiscal Year 1953 appropriations to the Marine Corps Stock Fund as follows:

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[1]Stock Fund Annual Report, 1954, p. 3.

[2]Ibid.

Military personnel

Marine Corps Reserve	$7,500,000
Marine Corps Troops and Facilities	22,000,000
Ships and Facilities, Navy	10,500,000
	$40,000,000[1]

The President further indicated that hereafter the Marine Corps Stock Fund would be subject to the normal budgetary processes. The $40 million in cash coupled with inventories of $276.1 million constituted the initial working capital of the Marine Corps Stock Fund on July 1, 1953.

Congress had provided the impetus; the Secretaries of Defense and Navy, respectively, made their demands; and the Marine Corps complied in making an all out effort to apply the revolving fund technique in the management of inventories of stocks of common-use standard stock items. Within a span of nine short months, plans were developed and implemented which specified a system of accounting on a monetary basis. For all practical purposes the same system was employed in accounting for material carried in the stock fund account as that in the appropriation stores account. The basic difference was in the

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[1]Letter from the President of the United States to the Honorable Charles E. Wilson, Secretary of Defense, June 9, 1953.

methods of financing and the distribution of charges. In the first instance, the dollars provided by the President and the consuming units determined the stocks to be purchased. In the second, charges were collected for statistical purposes only, and the items controlled and procured on the basis of established allowances.

Implementation of the stock funding concept represented a dramatic change in the means of managing Marine Corps inventories and while it would take a few years to prove its worth, the Task Force and the Marine Corps officers and civilians occupying top-level managerial positions at the time must be credited for a job "well done."

The following chapters focus attention on the Marine Corps' experience in reaching decisions on the items to be included or excluded from stock fund financing and other factors influencing the management of the Stock Fund through Fiscal Year 1967.

CHAPTER IV

STOCK FUND CRITERIA

The basic principle of the stock fund is its revolving characteristics without which it ceases to be a working-capital fund. The selection of classes of items of material, supplies and equipment for stock fund financing is an important factor in the revolving aspect of the fund. The military supply manager is continually faced with the problem of balancing inventories, commensurate with sales and purchases. Unless a sale is consummated, reducing the inventory of an item to a reorder position, stock replenishment is not effected. It is essential, therefore, that the items capitalized into the fund not lie dormant in inventory. A most important element then is the criteria employed in determining the items to be included or excluded from stock fund financing.

The foregoing, on the surface, and when related to consumable supplies appears to be a relatively simple problem. Conversely, however, it has been the cause for some of the major difficulties and areas of disagreement encountered by and with responsible officials within the military services and between the Department of Defense and the services.

The Marine Corps' historical experience in reaching decisions in this area receives primary coverage in this chapter. Emphasis is placed on interpretation of the Department of Defense policy guidance by the Marine Corps in particular and generally by the other military services. An insight into the application of the criteria by the Marine Corps and the other military services highlights the divergence of opinion which has existed within the Department of Defense. A comparison of the Marine Corps achievements in the financing of specific material categories with those of the Air Force is provided to expand the knowledge and depth in understanding the problems of financing of inventories in a capital-working fund environment.

In order to fulfill the purposes and objectives desired of the stock fund, the Department of Defense established criteria to be observed by the military services in determining what material would be included in the fund.[1] These criteria were officially promulgated in 1954 and generally coincided with those furnished the Marine Corps by the Secretary of the Navy and utilized during the implementing phases of the Marine Corps stock funding operations in 1953. Through the application of

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[1]U.S. Department of Defense, Regulations Governing Stock Fund Operations, DOD Directive 7420.1, February 4, 1954. Cited hereafter as DOD Regulations Governing Stock Fund Operations, 1954.

these criteria, the fuel supply material category was included as a new area subject to stock funding beginning on July 1, 1954. By the end of fiscal year 1955, the Marine Corps Stock Fund consisted of 89,000 line items valued at $365.9 million.[1]

During 1956, several significant events occurred which played an important role in future determination of the items to be included or excluded from stock fund financing. The first action involved a major revision in the Marine Corps Charter, approved by Mr. McNeil on March 12 of that year. This revision provided the following criteria:

> IV. INVENTORIES
>
> All materials procured and/or stored in the Marine Corps supply system for issue for maintenance and operating purposes are authorized to be carried in the Marine Corps Stock Fund. Normally, this will include all consumable types of material and relatively minor items of equipment, including parts and components used in the manufacture, assembly, maintenance or rebuild of end-items for the military supply system.
>
> The major categories of material approved for financing by the Marine Corps Stock Fund are set forth in the Appendix attached to and made a part of this charter. All secondary items within these categories of material (including spare parts) currently otherwise financed shall be included in the Fund as expeditiously as possible.[2]

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[1] Marine Corps Stock Fund Annual Report, Fiscal Year 1955. Cited hereafter as Stock Fund Annual Report, 1955.

[2] U.S. Department of Defense, Department of the Navy, Charter for the Marine Corps Stock Fund, approved March 12, 1956.

This revision authorized stock funding of all items procured and stored in the supply system for maintenance and operating purposes. It further introduced for the first time in the Marine Corps requirements for the financing of secondary items through the stock fund. These secondary items included spare parts or technical items which had previously been financed by other appropriations and carried in the Appropriation Stores Account. (The complete Charter can be found in Appendix B.)

The second major event in 1956 involved the publication of new instructions by the Department of Defense setting forth principles to clarify, interpret, and serve as a guide to each military service in determining inclusion and exclusion criteria involving material to be financed by stock funds. The instructions stated:

> II. PRINCIPLES TO BE OBSERVED IN DETERMINING MATERIEL TO BE INCLUDED IN STOCK FUNDS
>
> The selection of classes of items of materials, supplies, equipment, parts and components, hereinafter referred to as materiel, for inclusion or exclusion from stock fund financing will be made in accordance with the following principles:
>
> A. Authorized Inclusions -
>
> 1. All materiel procured and/or stored for supply purposes. This is intended to include all consumable types of materiel and relatively minor items of equipment, including parts and components used in the manufacture, assembly, maintenance or rebuild of end-items for the military supply system. The term 'consumable' materiel is

used in the sense of covering all materiel which may be considered to be expended to operating and maintenance appropriations when withdrawn from stock funds for use. However, no hard and fast definition may be drawn.

2. Normally maximum economy in the use of such materiel will be obtained by charging operating appropriations of the activities involved with the cost when such materiel is withdrawn from stocks for consumption or use.

3. When a class of materiel as defined above is included in a stock fund there shall also be included as a general rule (a) all local purchases of such types of materiel or equivalent substitution therefore, (b) mobilization reserve stocks of that class, and (c) all non-standard items which are authorized for issue to using organizations.

4. When any category or class of parts is included in a stock fund all such parts and components of that category or class, other than certain major components as explained in (b) below, should be financed under the fund.

B. Exclusions -

1. Major items of materiel (excluding parts) authorized for procurement by the major procurement appropriations of each military department as - Procurement and Production, Army; Aircraft and Related Procurement, Air Force; Shipbuilding and Conversion, Navy:

a) Major items of military equipment such as aircraft, ships, tanks, guided missiles, artillery, combat vehicles, including certain major components of military equipment which normally are financed with the related military equipment under the major procurement appropriations. These items generally require long production lead-time and determination of requirements and assignments of use are not controllable at operating level. However, any components of military equipment which are susceptible to cost control upon the basis of consumption may be financed under the stock fund and the cost of items withdrawn for use under the appropriate operating and maintenance appropriations.

b) Major items of plant and production machinery and equipment, except such items which are susceptible to cost control upon the basis of consumption when withdrawn for use.

2. Items of materiel which have not been researched and developed to the extent of being ready for acquisition (procurement) and assignment to use.[1]

Lastly, the Department of Defense republished its regulations governing stock fund operations.[2] The Department of Defense criteria to be observed in determining the items to be included in stock funds were to remain in effect until 1963 and are here summarized:[3]

1. Determination is generally made by standard material groupings used by the military departments.

2. Costs of items when issued for use are chargeable to a number of consuming activities, or items are held primarily for sale to personnel.

3. In general, there must be a recurring demand for the items so that investment shall not become frozen ("the general prudential rule").

4. Items included shall be those held for issue for supply purposes and not those held for capital investment or for use. The following types of items are excluded:

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[1]U.S. Department of Defense, Principles to be Observed in Determining Materiel to be Included in Stock Funds, DOD Instruction 7420.5, November 25, 1956.

[2]DOD, Regulations Governing Stock Fund Operations, 1956.

[3]Ibid., p. 8.

a. Real estate, installed equipment, industrial or similar machinery in use, or in stock.

b. Aircraft, ships, tanks, military-type vehicles, artillery and similar items.

Components of such items or relatively minor items of equipment are not excluded if they are in stock and are subject to recurring demand.

5. Individual items shall be excluded if not fully developed and are not expected to be stocked as standard material for continuing use.

6. Normally, the items should be standardized or constitute substitutes for standard items.

7. Stocks for resale to personnel of the Armed Services shall be included only to the extent legislation authorizes.

8. When a category of material is stock-funded, mobilization reserve stocks will be included.

9. "Consumable" items are to be included when the material is expected to be expended to operating and maintenance appropriations. However, no hard and fast definition may be drawn.

10. Generally, for stock categories, also included are all local purchases of such material.

After 1956 for the next two years, the only formal Marine Corps criteria available to the stock fund manager were

those contained in the charter. The Marine Corps, however, did give consideration to the criteria and principles published by the Department of Defense.[1] Perishable subsistence was brought under the Stock Fund on January 1, 1957 without capitalization of on-hand and on-order assets.[2] A new material category, Commissary Stores, was established and brought under the Stock Fund on July 1, 1957.[3]

The long recognized need for a more definitive criteria received impetus in April, 1958 when the Commandant established a committee to recommend more specified and detailed inclusion criteria.[4] After seven months' study the committee reported that the broad principles set forth by the Department of Defense led only to one criterion for inclusion of items in a stock fund, that is, cost control upon the basis of consumption.[5] The committee elaborated its basic statement as follows:

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[1]Interview with Mr. J. C. Braund, Office of the Assistant Secretary of Defense (Comptroller), January, 1965.

[2]U.S. Marine Corps, The Marine Corps Stock Fund Annual Report, Fiscal Year, 1957.

[3]U.S. Marine Corps, The Marine Corps Stock Fund Annual Report, Fiscal Year, 1958.

[4]U.S. Marine Corps, Letter from the Commandant of the Marine Corps, CSA-1-brt, to Lieutenant Colonel W. R. Norton, April 11, 1958.

[5]U.S. Marine Corps, Report of Committee for Establishment of Criteria for Determining Material to be Included in Stock Fund, November, 25, 1958.

> . . . This criterion can also be stated, in terms of low unit cost and inventory turnover rate, as 'items of low unit cost and high turnover should be included in the stock fund'. . . .[1]

The Committee further elucidated that management on a cost control basis fails to recognize the need for other elements of management control made necessary by the logistics importance of the item. Acknowledging that any item included in a supply system must have logistics importance, the Committee further stated:

> . . . management on a purely cost control basis, without extensive management on an item-for-item basis, should be applied to those items of a lower degree of logistics importance.[2]

Recognizing that the one inclusion criterion was inadequate, the Committee developed a statement of characteristics to describe items of such logistics importance, warranting management control on an item-for-item basis. This statement provided for the first time a formalization of the criteria applicable to the exclusion of items from stock fund financing as follows:

> Items that are of significant logistic importance will be excluded from the Marine Corps Stock Fund.
>
> Items of significant logistics importance are those items which require extensive management control on an item-for-item basis because they possess one or more of the following characteristics:

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[1] Ibid., p. 3.

[2] Ibid.

a. Complex method of requirements determination, giving direct cognizance to troop lists, initial allowances controlled by Headquarters Marine Corps. Item usage or planned replacement factors as appropriate to the time period for which requirements are being computed and prescribed material pipeline levels, plus a comprehensive world-wide control of assets in use and in stock.

b. High unit cost/low turnover

An inverse relationship exists between unit cost and inventory turnover rate. As unit cost increases, replenishable demand decreases without a direct relationship. As replenishable demand decreases, the ability of a field commander to predict, and budget for, his needs for an item also decreases.

Analysis of fractionation studies shows that there are significant points in the unit cost/inventory turnover relationship. These points, which are useful as graduated criteria for exclusion of items from the stock fund, are:

(1) Unit cost of $500 or more and 12 months replenishable demand is more than 0 but less than 120,

(2) Unit cost in excess of $200 but less than $500 and 12 months replenishable demand is more than 0 but less than 60,

(3) Unit cost in excess of $100 but less than $200 and 12 months replenishable demand is less than 25.

c. Technical Characteristics

Items to be controlled by Headquarters for purely technical reasons are those items that have major maintenance implications. They require maintenance by highly trained personnel equipped with special tools and test equipment. They possess the following characteristics:

(1) Susceptibility to engineering change - Items composed of components or assemblies susceptible to technological improvement, early obsolescence, or continuing product improvement such that functional suitability must be reassessed prior to each routine procurement.

(2) Production complexity - Items of such nature that production processes involve unusual complexity and require continuing supervision of fabrication, assembly, inspection, or test to insure a satisfactory product.

(3) Long lead time - Items which require long lead time for delivery of essential components, materials or sub-assemblies to the extent that necessary scheduling, programming, or provisioning actions cannot be accomplished with normal planning cycles. The majority of items requiring Headquarters control on the basis of technical characteristics will meet criteria (a) and (b) above and technical criteria need not be applied. For this reason, it is recommended that criteria (a), (b) and (c) be applied in that order.[1]

The Committee also recommended that items not meeting the exclusion criteria would remain in or be transferred to the Stock Fund. Items in the Stock Fund that met the criteria for exclusion should be decapitalized and transferred to the Appropriation Stores Account. Directing attention to new items coming into the supply system, the Committee further recommended that if one or more of the criteria for exclusion were applicable, financing should be accomplished utilizing major procurement funds. Recognition was also given to the timing of these transfers which must of necessity coincide with the budget cycle for all appropriations involved.[2]

Using the new criteria, a working group completed screening of the Appropriation Stores Account as of December 31, 1958 and recommended capitalization of additional items by the

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[1] Ibid., Enclosure 1. [2] Ibid., p. 3.

Stock Fund.[1] The earliest the transfers could be effected was in Fiscal Year 1960. Agreement by the Commandant of the Marine Corps on the criteria was noted in the letter disestablishing the Committee.[2]

The Committee efforts were also recognized in the annual report on the Stock Fund for Fiscal Year 1959, issued three months later. The report stated:

> The current criteria for the inclusion of items in the Marine Corps Stock Fund were developed in Committee within the past year and are acceptable from both the supply and logistical point of views. By way of implementation, a working group completed screening of the Appropriation Stores Account as of 31 December 1958 and has recommended capitalization based thereon. As a follow-on all items coming into the supply system in the future will be screened against this criteria. . . .[3]

Fiscal Year 1960 reports disclose that a total of $10.4 million was capitalized into the Stock Fund during that year. There is no evidence available, however, to provide any indication that the specific items identified were in fact capitalized.[4]

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[1]U.S. Marine Corps, Marine Corps Stock Fund Annual Report, Fiscal Year, 1959. Cited hereafter as Stock Fund Annual Report, 1959.

[2]Letter from the Commandant of the Marine Corps, CS-4-kar, to Lieutenant Colonel William L. Norton, March 19, 1959.

[3]Stock Fund Annual Report, 1959, p. 5.

[4]Stock Fund Annual Report, 1960, p. iii.

In continuance of pursuing the principles and policies of the Department of Defense, the Marine Corps extended financing and management through the stock fund technique to non-standard and non-cataloged material procured by local commands from commercial sources. The system, established on July 1, 1959, provided for financing local shelf stock of non-standard and non-cataloged items through the use of stock fund monies. This system relieved the maintenance and operations appropriation from the burden of financing shelf stocks, making locally purchased material readily available to consuming units.[1] This action was consistent with the criteria and the principles provided by the Department of Defense in the regulations promulgated in 1956 which have been previously discussed.

Although the Committee criterion was considered acceptable the criterion problem was once again in evidence during the summer of 1960. Another attempt was made at the Headquarters level to clarify the items to be included or excluded from the stock fund. Basic problems regarding inclusion/exclusion criteria stemmed from the fact that agreements among those staff activities sharing responsibility for stock fund operations had been most difficult.[2]

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[1] Stock Fund Annual Report, 1959, p. 5.

[2] U.S. Marine Corps, Headquarters, Memorandum from Quartermaster General of the Marine Corps, to Fiscal Director and Assistant Chief of Staff, G-4, CSN-2-vjk, 26 February 1962.

The problems involved can be more deeply appreciated after reviewing the missions and functions of the three groups connected with management and coordination of the stock fund. Parties involved in the stock fund operation are the Assistant Chief of Staff, G-4, the Quartermaster General, and the Fiscal Director.

The duties and responsibilities of the Assistant Chief of Staff, G-4, (a Major General) are:

> 1. Mission.--The Assistant Chief of Staff, G-4, under the direction of the Commandant is responsible for Marine Corps logistic plans and policies; determination of requirements, program objectives and programs relating to material readiness. He determines the material requirements and material program objectives of the Marine Corps. . . . He coordinates budget activities relating to the Procurement appropriation and the Operation and Maintenance appropriation.
>
> 2. Functions
>
> . . . . . .
>
> b. Prepares guidance for formulation of Budget Estimate presentation to higher authority, . . . and serves as the general staff appropriation sponsor for the appropriations 'Operation and Maintenance, Marine Corps' and 'Procurement, Marine Corps.'
>
> . . . . . .
>
> d. Interprets logistic directives from higher authority and prepares Marine Corps directives or other policy statements of the Commandant, . . . in the following areas: . . . supply distribution, maintenance. . . .
>
> . . . . . .

f. Reviews pertinent points of logistic policy, doctrine, guidance and legislation.[1]

With these missions and functions the Assistant Chief of Staff, G-4, must approve any policy or operational change that will affect the appropriations under his sponsorship. A change in the stock fund exclusion criteria would naturally have an effect on the Operation and Maintenance and Procurement appropriations, both of which are under G-4 sponsorship.

The Supply Department under the Quartermaster General of the Marine Corps (a Major General) is responsible for the management of the Marine Corps Supply System which includes the Stock Fund. The functions of the Supply Department are: to procure, warehouse, distribute, and sell all materiel, equipment repair parts, and supplies for the Marine Corps and to supervise management of the Stock Fund.[2] Therefore, any supply policy change, whether it is relative to the Stock Fund criteria or otherwise, could not be effected without the direct involvement of the Quartermaster General.

The Fiscal Director of the Marine Corps is not responsible for the policies established but is concerned with whether or not they are legal and conform to good financial practice. Thus any decision dealing with a change in the inclusion

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[1]U.S. Marine Corps, Headquarters Manual, Vol. I & II (not dated), p. 5-3.

[2]Ibid., pp. 9-3.

criteria of the Marine Corps Stock Fund will fall within the mission and functions of the Fiscal Director, thereby requiring his concurrence. The Fiscal Director of the Marine Corps holds a Civil Service grade of GS-17[1] and has the following duties and responsibilities as cited in the Headquarters Manual:

> 1. Mission.--The Fiscal Director of the Marine Corps is responsible to the Commandant of the Marine Corps for the formulation of fiscal policy and for fiscal and disbursing administration in the Marine Corps, to the end that fiscal and disbursing actions, policies, and procedures of the Marine Corps will be in conformity with law, good business practice, and applicable policies, procedures and regulations issued by higher authority.
>
> 2. Functions
>
> . . . . . .
>
> b. Has complete responsibility for maintaining records, reporting and administering all appropriated funds and reimbursements thereto for the operation and support of the Marine Corps. . . . Is responsible for accounting for all appropriated funds allocated to sub-head administrators at Headquarters Marine Corps.
>
> . . . . . .
>
> Coordinates the execution of approved budget plans, including securing apportionment of funds, allocation or allotment of funds to subhead administrators, . . . and the exercise of financial administration and control.
>
> . . . . . .
>
> Monitors execution of all Marine Corps programs to ensure that the administration of appropriated funds allocated to the Marine Corps complies with the law and the Commandant's Financial Plans.[2]

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[1] Since 1963. Prior to that time he was a Major General.

[2] Ibid., p. 6-3

The positions taken by the separate activities at Marine Corps Headquarters have depended largely upon the scope and the implied implications of the recommended exclusion criteria. This divergence of position is highlighted by events occurring during the summer of 1960.

In July of that year, representatives of the Assistant Chief of Staff, G-4, the Quartermaster General, and the Fiscal Director developed revised criteria and procedures to be followed in determining which items were to be included in the Stock Fund.[1] The criteria generally agreed with those developed in 1958 except that specific unit costs in relation to replenishable demand were removed. The revised criteria are summarized as follows:

1. Specific criteria must be compatible with the Department of Defense regulations governing the operation of stock funds and the principles to be observed in determining material to be included in stock funds.

2. Determination of items to be included in the stock fund should be made by material category but individual items within categories may be exempted.

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[1]Second endorsement on Quartermaster General of the Marine Corps Memorandum from the Assistant Chief of Staff, G-4, to the Commandant of the Marine Corps, May 31, 1961, Enclosure 2.

7. Criteria to be applied to items to be excluded from stock fund financing are:

a) Item is a major component, and has characteristics of an end-item in that it is durable and repairable.

b) Item is in or supports an item in the research and development stage.

c) Item has no established or predictable recurring demand.

d) Item requires the use of a complex method of requirements determination based on direct cognizance of:

(1) Planned troop lists to be supported by initial equipment allowances by Headquarters Marine Corps.

(2) Item usage or planned replacement factors, as appropriate to the time periods for which requirements are being computed.

(3) Prescribed material pipeline levels.

(4) Comprehensive world-wide control of assets in use and in stock.

e) Ammunition item.

f) Item is a high-cost, slow-moving, insurance-type item which has an inventory to sales ratio which precludes sufficient sales in time and volume to permit required reinvestment in inventory to meet new or continuing demand.

g) Item is of such high cost and so unpredictable in demand that its acquisition at the consumer level would be unanticipated and would place an inordinately heavy burden on operating allotments. Items of this nature should be determined only after full consideration of the other criteria listed above.

The procedures specified that the representatives of each of the three Marine Corps offices would determine by majority vote the items to be stock funded in accordance with prevailing Department of Defense policies for inclusion and the exceptions for exclusion summarized above. The decision of the Committee constituted the acceptance of the officials represented, except that a reclama could be made to the Chief of Staff by anyone of the three in case it was considered that directives of higher offices were not being followed.[1]

The criteria were concurred in; the Fiscal Director, however, took exception to the use of the Committee, which he felt would serve no useful purpose, when the responsibilities were currently assigned within the Headquarters. He recommended alternative procedures which stated that:

a. The Assistant Chief of Staff, G-4, would provide approved criteria to the Supply Department as a basis for inclusion or exclusion of items from the Stock Fund.

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[1]Ibid., Enclosure A.

b. The Supply Department would screen the items and recommend appropriate action by the Commandant. Estimated annual sales were to be included, in order to examine fiscal implications.

c. The Fiscal Director would determine fiscal implications and make appropriate recommendations to the Commandant.

d. Based on the above, the Assistant Chief of Staff, G-4, would make recommendations to the Commandant for approval or disapproval. Fiscal implications and recommendations of the Fiscal Director would be considered in determining the year in which capitalization or decapitalization of the Stock Fund would occur.

Ostensibly in 1960, agreement by the three primary staff offices, had been reached.[1] After seven years, a workable exclusion criteria and the procedures to be followed in the capitalization and decapitalization of items into or out of the Marine Corps Stock Fund had finally been determined.[2]

This agreement was soon subjected to criticism in February, 1961, when conflict arose within Headquarters Marine

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[1]U.S. Marine Corps, Headquarters, Assistant Chief of Staff, G-4, Second Endorsement, May 31, 1961, on QMGMC Memorandum to the Commandant of the Marine Corps, May 16, 1961.

[2]Interview with Mr. J. C. Braund.

Corps over information to be contained in the projected Fiscal Year 1963 Field Budget Guidance.[1] In this instance, the Fiscal Director of the Marine Corps objected to the Assistant Chief of Staff G-4 instructions to field activities not to budget for seven expensive stock fund items in Fiscal Year 1963. In justifying his position the Fiscal Director stated:

> . . . the removal of material from the Marine Corps Stock Fund is not a matter to be executed in an uncoordinated impulsive manner, but one which deserves and requires a well thought out policy, completely coordinated as to all implications prior to its promulgation.[2]

The Fiscal Director recommended that the Commandant direct the Assistant Chief of Staff, G-4 to cancel the applicable Guidance and further recommended that the G-4 expedite the preparation of a proposed policy on material for inclusion in or exclusion from the Marine Corps Stock Fund, and that it be properly staffed and submitted to the Commandant for approval.[3] The Commandant approved the Fiscal Director's recommendation on March 20, 1961.[4]

One may readily infer that early attempts to resolve the criterion problem were frustrated exercises in the achievement of rather limited and very short-range objectives. It is

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[1]Memorandum from the Fiscal Director of the Marine Corps, to the Commandant of the Marine Corps, AS/rl, February 28, 1961.

[2]Ibid. [3]Ibid., p. 2. [4]Ibid.

apparent in light of later events, that the Marine Corps was following an unannounced policy of carrying as many items as possible in the Stock Fund without consideration of the availability of consumer funds.[1] While the Marine Corps officials were struggling in overcoming the criteria problem the Navy had achieved more success.

About May 5, 1951, the Marine Corps received from the Chief of Naval Material a proposed "Secretary of the Navy Instruction 7113" which contained revisions to the stock fund criteria. The proposed document represented two years' effort by the Navy and had been completely staffed except for the Marine Corps. The last paragraph of the cover letter requested the Marine Corps to submit its comments within ten days.[2] The Marine Corps was thus expected within ten days to reach a conclusion on a subject which had been unresolved for years. The proposed instruction contained criteria that had been the subject of previous agreements in the Marine Corps and proposed that if an item met one or more of the following criteria it would be excluded from the Navy and Marine Corps Stock Fund.

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[1]Assistant Chief of Staff, G-4, Second Endorsement, May 31, 1961 on QMCMC Memorandum to the Commandant of the Marine Corps, May 16, 1961.

[2]U.S. Department of the Navy, Chief of Naval Material, Memorandum to Major General C. R. Allen, USMC, Subject: Stock Fund Criteria, May 2, 1961.

1. Items in a stage of research and development, subject to frequent engineering or design changes, items procured and issued for specific installations and those not planned to be replenished or available for general use.

2. Items whose sales are not likely to maintain the revolving nature of the stock fund.

3. Items subject to high rates of obsolescence.

4. Repairable items subject to being rebuilt at a fifth echelon depot.

5. Items that are nonstandard.

6. Items which, if subjected to a funding constraint at the consumer level, could result in danger to personnel or equipment.

7. High cost items which are locally unpredictable in demand and the acquisition of which at the consumer level would place a heavy burden on the operating allotments.

The proposed criteria received general acceptance in the Maring Corps except for items 4 and 6, which were strongly opposed by the Supply Department and Fiscal Division. On June 9, 1961 the Chief of Naval Material was advised that the proposed criteria were generally acceptable. However, the Marine Corps did not concur in excluding repairable items and items which if subjected to a funding constraint at the

consumer level could result in danger to personnel or equipment.[1]

In an attempt to satisfy the Marine Corps, the Navy revised the objectionable portions of the proposed exclusion criteria but they still were not acceptable to the Marine Corps. In 1962 the Supply Department urged that repairables and personnel safety items be excluded from the Stock Fund,[2] even though the official position of the Marine Corps had not changed. However, their recommendation was rejected because the wording gave the Quartermaster General too much authority relative to funds and operations, which was an assigned responsibility of the Assistant Chief of Staff, G-4.

It was not until August, 1962 that the Commandant of the Marine Corps concurred in the exclusion criteria proposed by the Navy, and then only after he was given authority to make exceptions to the criteria as he deemed appropriate.[3] The Secretary of the Navy published an instruction (SECNAV INSTRUCTION 7113.4 of August 8, 1962) which contained the same exclusion criteria previously summarized herein. This order

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[1]Letter from Commandant of the Marine Corps, to Chief of Naval Material, CSS-1-als, June 9, 1961.

[2]U.S. Marine Corps, Headquarters, Quartermaster General of the Marine Corps Memorandum to Fiscal Director and Assistant Chief of Staff, G-4, CSN-2-vj, February 26, 1962, Encl. 1.

[3]Letter from the Commandant of the Marine Corps, to the Chief of Naval Material, CSS-1-baw, August 4, 1962.

did nothing more than authorize the Marine Corps to exclude items that met the criteria contained therein; it did not direct such exclusion. At this time, the Marine Corps had to publish its own interpretation of the instruction.

On May 21, 1963, after five years of effort, the Marine Corps officially published a directive that provided excellent guidance as to what items would or would not be financed by the stock fund.[1] Two significant characteristics of this document should be mentioned. The first is that it applied only to new line items entering the Marine Corps Supply System, and therefore the problem of deciding on the decapitalization of the items already in the system was deferred. The second significant characteristic involved the "in again, out again" repairable and personnel safety items. As can be observed below these items were not excluded from the Stock Fund by this directive. Since this was the first general policy directive issued to field activities concerning exclusion criteria, it deserves to be quoted:

CRITERIA FOR EXCLUSION OF ITEMS
FROM MARINE CORPS STOCK FUND

a. Items in a research and development stage or items for which budget and procurement requirements, quality control and/or assignment to use require continuing

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[1]U.S. Marine Corps, Commandant of the Marine Corps, Inventory Control Directive Number 70, CSS-Ia-ba, May 21, 1963, Encl. 3.

logistics engineering, or fiscal administration and control at Headquarters level. Items to be excluded under this criteria will be determined by Headquarters Marine Corps.

b. Items procured and issued for a specific activity and planned to be replenished or available for general use.

c. Items whose future sales are not likely to maintain the Fund's revolving nature by return of the stock investment because of little or no recurring demand. Items falling within this criteria include the following:

(1) Class IV items and Class II, Type I, Chemical Warfare Items.

(2) Items designed for 'one-time' installation on an end item, i.e., modification kits (This kit is defined as one which meets the following requirements: (a) It is procured containing all material necessary to perform a modification. (b) Consists of 2 or more items, at least one of which is not in the MIR and not stocked in the Marine Corps supply system.)

(3) Items issued on an initial basis only with required upkeep accomplished through component replacements, i.e., sets, kits, chests.

(4) Items where replacement is usually necessitated because of accidental loss or damage, i.e., radar pedestals, motion picture projectors, cameras, desks, tables, chairs, cabinets, lockers, wheels, seats, safety belts, fenders, hoods, bumpers, etc.

d. Peculiar items in support of high-cost end items subject to a high rate of obsolescence. Headquarters Marine Corps will designate the end items meeting this criteria, i.e., Radar Set, AN/TPS-32, Tactical Operations Central, that these items are no longer peculiar, then a review should be made to determine if a change in funding method is required.

e. Items in support of end items which have a predicted service or program life of less than three years because of technological improvement, continuing product improvement resulting in a limited program life due to lack of design stability. All questionable items will be forwarded to Headquarters (Code CS) for determination.

f. Items which cannot be assigned a firm standard price immediately upon entry into inventory or within a reasonable period thereafter.

g. Items of high-cost and low-density which are locally unpredictable in demand and the acquisition of which at the consumer level would place an inordinately heavy burden on operation allotments. Items of this nature should be determined only after full consideration of criteria a. through f. High item cost will not be the controlling factor for exclusion.[1]

The Marine Corps directive previously quoted created some problems while eliminating others. Now a new combat tank engine not previously stocked by the stock fund could be coded to the appropriated stores account (ASA free issue) under criterion "g." This resulted in a unit paying for one engine and getting another free even though both were of a similar type. Further there were other items in the stock fund that did not meet the inclusion criteria under this directive.

To establish a basis for the continued revision to the Marine Corps Stock Fund exclusion criteria it was necessary to review the steps taken by the Department of Defense to reconcile the problems encountered. Resolutions to the problems and controversies that had existed for many years within and outside the Defense Department were undertaken by a study group consisting of representatives from the Offices of the Assistant Secretaries of Defense (Comptroller) and (Installations a

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[1] Ibid.

Logistics) and a representative from the Bureau of the Budget.[1] Their work commenced during the month of August, 1962 and they submitted their report on October 10, 1962.

The group concluded that the criteria for including or excluding material from the stock funds must be set forth in terms that leave a minimum of room for varying interpretations and that can be policed, with the differences resolved in terms of specifics--in other words, exclude items from the stock fund on an item basis rather than by broad categories. After much study within the group as well as within the individual services, it was determined that all secondary items would be included in the stock funds except:

Insurance items
Items directly related to the safety of personnel
Items coded for repair through depot level
Items in research and development stages
Locally controlled items

It is interesting to note the position of the Marine Corps and the other services relative to the above exclusion criterion. It must be understood that the positions cited here were as of September 1, 1962.[2]

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[1]U.S. Department of Defense, Office of Assistant Secretary of Defense, Operating Fund/Stock Fund Study, by Joint Work Group of Office of the Secretary of Defense and Bureau of the Budget, October 5, 1962. Cited hereafter as DOD Operating Fund Stock Fund Study.

[2]Ibid., pp. 17-25.

Insurance Items.- The Marine Corps and the Army did not concur with the exclusion of these items because their inclusion discouraged excess stock acquisitions at all operating levels. The Navy and Air Force agreed with their exclusion.

Items Directly Related to the Safety of Personnel. - The Marine Corps and Army recommended these items remain in the stock fund whereas the Navy and Air Force encouraged their exclusion because of their impact on combat effectiveness. The Marine Corps expressed the thought that all essential items had some relation to safety of personnel.

Items Coded for Repair Through Depot Level. - Inclusion of these items, said the Marine Corps, Army and Navy, provides an incentive for the users to repair rather than draw a free replacement, and enables materiel to be available closer to the point of issue. The Air Force indicated that the items should be excluded from the stock fund because it is uneconomical to include these items due to cumulative effect of difficulties with respect to credit problems, accounting while in a repair status and pricing.

Items in Research and Development. - All four services concurred with their exclusion. The exclusion of these items had been a policy of the Department of Defense since 1956.

Locally Controlled Items. - In this case the Marine Corps joined with the Air Force to exclude these items, but the

Navy and Army indicated there were definite advantages to their being included.

A reduction in the wide variance in the utilization of the stock fund that existed among the different services was indicated in a letter sent by the Secretary of Defense to Congress on March 30, 1963:

> Revised item definitions will permit a more specific determination of items to be funded by appropriations and by stock funds under the revised stock fund criteria, thereby establishing a policy that will lead to consistent practices within the department.
>
> Some items in Army and Navy Stock Funds (particularly insurance items and repairables) will be transferred to appropriated funding.
>
> Some parts in Navy and Air Force will be stocked funded that are not now in stock funds.[1]

On the basis and authority of this letter, the Marine Corps received authority not only to further revise their criteria but also to commence planning the decapitalization or migration of items from the Stock Fund to the Appropriation Stores Account.

Upon receipt of this new guidance the Marine Corps initiated action to establish another set of exclusion criteria. Whether it was because of experience or pressure from higher echelons, agreements were reached sooner than in previous

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[1]Letter from Assistant Secretary of Defense to the Comptroller General of U.S., March 30, 1963.

studies. By December, 1963 a revised criteria for exclusion of items from the Stock Fund had been agreed upon by the G-4, Fiscal Director and the Quartermaster General and approved by the Commandant of the Marine Corps.[1]

Prior to this time the Marine Corps had projected a conservative attitude toward the exclusion of items from the Stock Fund, but the approved criteria excluded a broader scope of items than appeared to have been the intention of the Secretary of Defense. The exclusion criteria in Marine Corps Order 7113.1 dated May 28, 1964 and in effect until July 1, 1967 contained all the features of the criteria shown on page 68 and also excluded items coded for repair through the depot level and locally controlled items purchased for immediate use (i.e., office furniture, office machines, etc.). The complete criteria are shown in Appendix C. The six-year struggle since 1958 produced the most definitive stock fund exclusion criteria ever produced, with the exception of the first criteria that were established in the Navy in 1893. The selection of items for stock funding now became a task of identifying items obviously suitable or unsuitable for stock-funding. For those items which were not clearly identified, the new criteria facilitated judgment decisions. The types and number of items to be

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[1]U.S. Marine Corps, Headquarters, Letter from the Commandant of the Marine Corps CSS-1a-ewk to the Assistant Chief of Staff, G-4, Quartermaster General of the Marine Corps, Fiscal Director, December 12, 1963.

decapitalized, including those due in, were determined by the Inventory Control Point and reported by the Stock Fund Manager as indicated:[1]

Types	Number
Principal Items	27
Reparables	184
Insurance	8914
Class IV	420
Chemical Warfare	61
Modification Kits	155
Sets, Kits, Chests	217
No RD but requirements	1793
Maintenance Float Reparables	72
5th Echelon Reparables	212
	12,055

The total money value of these items was reported to be $62,864,000.[2] Conversion was planned to begin during Fiscal Year 1966.[3] For the first time in the history of the stock fund, mass decapitalization to the Appropriation Stores Account was now a matter of time, or at least appeared to be.

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[1]U.S. Marine Corps, Headquarters, Financial Division Statistical Data, Conversion Program SFA to ASA, Revision, September 18, 1964.

[2]Ibid.

[3]U.S. Marine Corps, Headquarters, Quartermaster General of the Marine Corps, Memorandum CSS-1a-ewk, to the Commandant of the Marine Corps, August 10, 1964.

According to various senior financial management, rumors emanating from the Department of Defense delayed further action on mass decapitalization until July 1, 1967.[1] A new criteria was now in the development stage within the Department of Defense.[2] This criteria was to be identified with Dr. Robert N. Anthony's Project PRIME, and the Defense Resource Management System, and is discussed in Chapter VI.

The current analysis ends with Fiscal Year 1967. Even though the Marine Corps had not taken the one final step to improve the revolving aspects of the stock fund when sound criteria had been approved, an analysis of its progress and achievement in the use of the stock fund as compared with other services is presented in the next chapter.

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[1]Interviews with Mr. Herbie Mashino, Mr. Anthony J. Varano, and Mr. Oswald C. Dailey, Financial Management Division, Supply Department, Headquarters, U.S. Marine Corps, February, 1968.

[2]Ibid.

CHAPTER V

ANALYSIS OF THE OPERATING RESULTS OF THE MARINE CORPS STOCK FUND

The foregoing chapters have discussed the early development of the Marine Corps Stock Fund and the "growing pains" experienced in the fourteen years of its existence. This chapter will delve into the operating aspects and concrete accomplishments that have resulted through the implementation of the Stock Fund.

To analyze the revolving aspects of the Marine Corps Stock Fund, the reader should understand that despite its relatively small size, the Marine Corps faces in its operation all of the problems encountered by the other military services and the Defense Supply Agency. Indicative of the magnitude of the Marine Corps Stock Fund operation is the fact that during 1967 it accounted for approximately two per cent of the $7,502 million inventory of the Department of Defense. Since 1963 it has accounted for approximately two per cent of the sales made by Defense Stock Funds which in 1967 totaled $11,859 million.[1]

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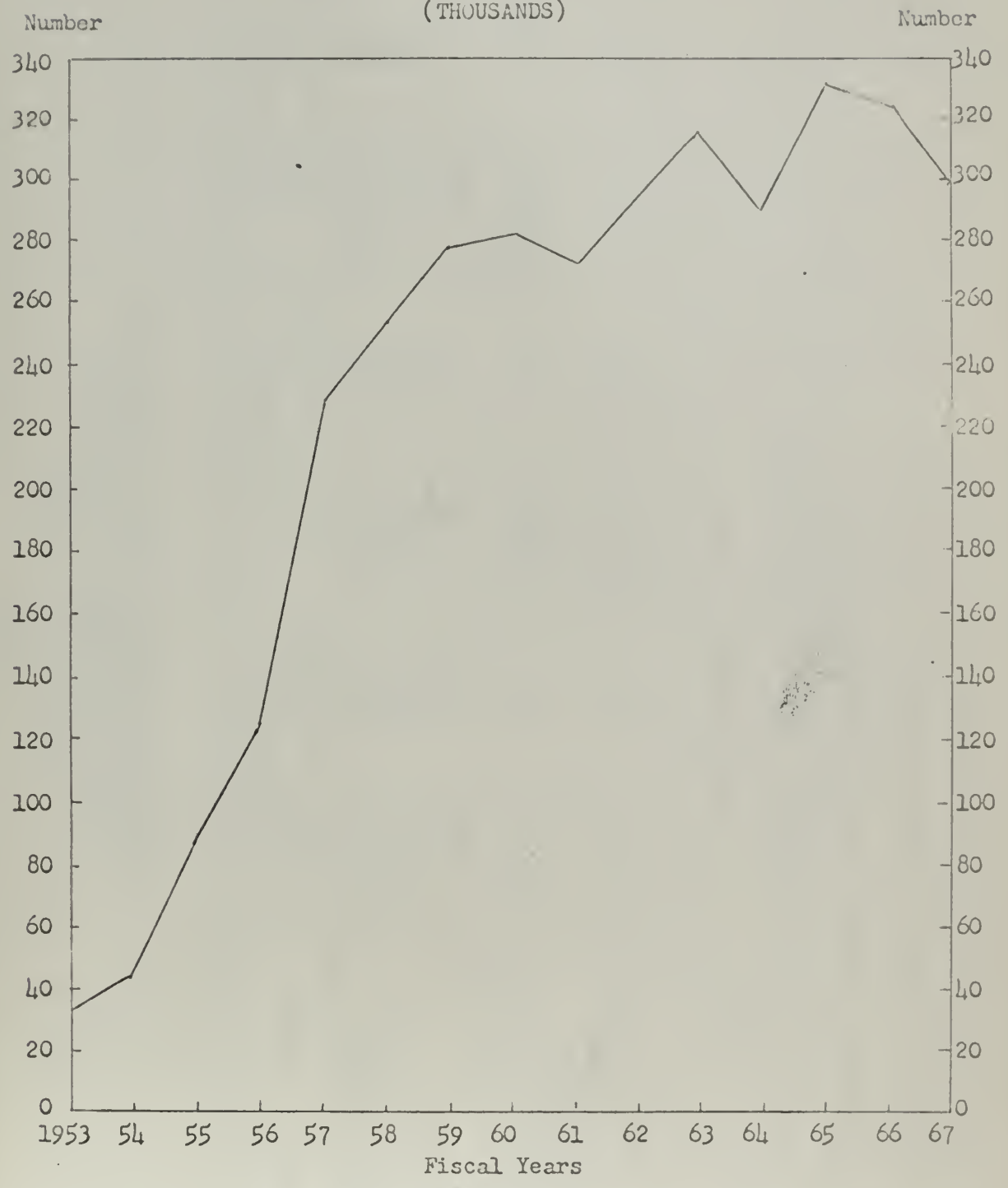
[1] Working Capital Funds of the Department of Defense, 1967.

Chart 5 provides a visual depiction of the growth from 1953 through 1967 of the number of line items included within the Marine Corps Stock Fund Account. The data reflects the growth from 34,188 line items included upon initial capitalization of the Stock Fund in 1953 to a total of 299,743 line items as of June 30, 1967. It also reflects the problems in resolving and implementing a set of positive inclusion/exclusion criteria as discussed in the foregoing chapter.

Tables 2 and 3 indicate the relative breakdown, on a selective year basis, of the items stocked within the Marine Corps Stock Fund. Table 2 provides a breakdown for 1955, 1960, and 1965 of the line items carried by material category. It also reflects the dramatic increase in the number of line items stocked without a corresponding increase in the value of inventories carried. Table 3 provides a further compilation of the data presented in Table 2 by showing the breakdown of line items and inventories by material category expressed in percentages of total line items and total inventory values.

Table 4 indicates that while line items for inclusion were experiencing a stupendous growth, Marine Corps progress was rather slow in improving the revolving aspect of the Stock Fund. While some supply managers would disagree about using inventory turnover as a measure of effectiveness, it has been viewed historically by the Department of Defense and the

NUMBER OF ITEMS
FINANCED BY MARINE CORPS STOCK FUND
FISCAL YEARS 1954-1967
(THOUSANDS)



Note: Beginning July 1, 1953. All others as of June 30 for Fiscal Years shown.

Source: Headquarters, U.S. Marine Corps.

CHART 3

TABLE 2

MARINE CORPS STOCK FUND
APPROXIMATE NUMBER OF LINE ITEMS AND
VALUE OF INVENTORY BY MATERIAL CATEGORY
FISCAL YEARS ENDING 30 JUNE, 1955-1960-1965

MATERIAL CATEGORY	30 JUNE 1955[b]		30 JUNE 1960[a]		30 JUNE 1965[a]	
	LINE ITEMS	VALUE ($ MILLIONS)	LINE ITEMS	VALUE ($ MILLIONS)	LINE ITEMS	VALUE ($ MILLIONS)
General Property	10,800	113.8	89,300	96.0	114,600	38.3
Clothing & Textiles	2,800[c]	88.5[c]	4,400	30.8	5,600	25.1
Ord-Tank-Auto	47,500[d]	119.8[d]	75,200	158.9	52,000	75.8
Subsistence	300	4.9	300	5.7	700	2.2
Fuel	200	.5	100	1.7	300	1.4
Engineer Supplies and Construction Material	26,000	34.9	29,800	37.5	45,000	26.0
Commissary Stores	-	-	5,500	2.1	3,500	2.9
Communications-Electronic-Electric	2,200	3.5	76,800	60.5	90,800	33.6
TOTAL[e]	89,800	365.9	281,400	393.2	312,500	205.3

[a]U.S. Department of Defense, Working Capital Funds of the Department of Defense, 30 June 1960 and 1965.

[b]Marine Corps Stock Fund Annual Report, Fiscal Year 1955.

[c]Individual and Organizational Clothing combined.

[d]Ordnance and Motor Transport combined.

[e]Does not include inventory in-transit.

TABLE 3

MARINE CORPS STOCK FUND
PERCENTAGE OF LINE ITEMS AND VALUE
OF INVENTORY BY MATERIAL CATEGORY
FISCAL YEARS ENDING 1955-1960-1965

MATERIAL CATEGORY	1955		1960		1965	
	ITEMS %	VALUE %	ITEMS %	VALUE %	ITEMS %	VALUE %
General Property	12.1	31.3	31.7	24.5	36.7	18.7
Clothing & Textiles	3.1	24.2	1.6	7.8	1.5	12.2
Ord-Tank-Auto	53.9	32.7	26.7	40.4	16.6	36.9
Subsistence	0.3	1.1	0.1	1.5	2.2	1.4
Fuel	0.2	0.1	1/	0.4	1.0	0.7
Commissary Stores	-	-	2.0	0.5	1.1	1.4
Engineer Supplies and Construction Equipment	29.0	9.6	10.6	9.5	14.4	12.7
Communications-Electronic-Electric	2.4	1.0	27.3	15.4	29.0	16.3
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

1/ Less than 1/10 of 1 per cent

Note: Totals do not add in all cases due to rounding.

Source: Table 2.

TABLE

TURNOVER RATE OF MARINE CORPS STOCK FUND MATERIAL
FISCAL YEARS 1954-1967[a]
(Millions of Dollars)

FISCAL YEAR	AVERAGE INVENTORY	NET SALES	TIMES TURNOVER
1954	307.5	57.6	.19
1955	355.9	53.1	.14
1956	386.0	61.6	.16
1957	360.8	70.7	.20
1958	363.8	106.7	.30
1959	405.9	107.7	.26
1960	399.9	106.6	.26
1961	319.6	110.4	.34
1962	254.1	123.7	.49
1963	243.7	124.0	.51
1964	223.3	127.5	.57
1965	207.9	135.3	.64
1966	212.2	192.7	.91
1967	235.2	251.9	1.07

[a]Marine Corps Stock Fund Annual Reports, Fiscal Years 1954-1967.

Bureau of the Budget as a means of determining the obligation and commitment authority for initial procurement or replenishment of stocks. The data in Table 4 shows that the Marine Corps capitalized assets into the fund which were in an excess position of requirements. For example, at the end of Fiscal Year 1954 the dollar value of the average inventory approximated five times the number of dollars required to support the dollars of sales for that year, based on the low percentages reflecting its early operation.

It should be emphasized that organization, mission and requirements in support thereof, also have a vital impact on the stock fund. Thus one is not likely to find the military services having identical requirements. It would appear, however, that on a percentage basis the preponderance of items carried in the military supply systems would be financed by stock funding. The answer resides in the fact that the inclusion/exclusion criteria have been interpreted differently by the four services.

The exclusion criteria and their interpretation have serious implications in evaluating the revolving characteristics of stock funds. The problem can be approached from two basic standpoints:

1. That all items are to be included except those that can be justifiably excluded.

2. Items will not be included except those that enhance the revolving aspects.

The Marine Corps and Army have always included a maximum number of items in their stock funds. The Air Force has taken the second approach and supported its position that there are no characteristics of stock fund operations, per se, which provide for more effective supply management.[1] Their objective is to use the revolving fund concept of financing whenever this method is the most practical, efficient, and economical means of insuring highly responsive and effective logistical support.[2] It is obvious that the Air Force's criteria are quite different from those of the Marine Corps; in fact, they are considered by some officials to be incompatible with Department of Defense policies. As early as 1959, Mr. John M. Sprague, Deputy Secretary of Defense, wrote in this connection:

> The Department of the Air Force has installed the use of stock funds at all levels for categories of material which are generally known as 'common use,' but it has not used the stock fund to finance inventories of spare parts or other categories of technical material. It has not yet utilized the stock funds to finance 'general supplies' below the depot level nor local procurement of common

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[1]U.S. Congress, Senate, The Operation of Stock Funds in the Military Establishment, p. 7.

[2]U.S. Department of Defense, Operating Fund/Stock Study, October 5, 1962, p. 22.

commercial consumption-type material. In this respect, it is likely that the Air Force will find useful some of the methods of operating stock funds developed in the Army and Navy.[1]

The statement of the Secretary appears to have been disregarded by the Air Force, for during the period Fiscal Year 1959 through 1966 the percentage of items in the total Air Force inventory financed by the stock fund decreased. The approximate percentages of total line items stocked by the Army, Marine Corps, and Air Force, which were financed by their respective stock funds in Fiscal Years 1959 through 1966, are shown in Table 5.[2] The increased percentage for the Army beginning in Fiscal Year 1964 can be attributed to the revised Department of Defense policy issued in 1963.[3]

Table 6 relates the categories of items and their values that are included in the stock funds of the three services as of June 30, 1966. Variances in interpretation of the Department of Defense policy guidance are immediately recognizable with reference to the number of material categories represented and more specifically the comparatively few items financed by the Air Force Stock Fund.

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[1]Letter from Assistant Secretary of Defense (Comptroller) to Committee on Appropriations, House of Representatives, Washington, D.C., October 20, 1959.

[2]Working Capital Funds of the Department of Defense, 1959 through 1966.

[3]Letter from Assistant Secretary of Defense to Comptroller General of U.S., Washington, D.C., March 30, 1963.

TABLE 5

PERCENTAGES BY SERVICE

Fiscal Year	Army	Marine Corps	Air Force
1959	90%	99%	8%
1960	85	97	5
1961	85	98.8	3
1962	85	98	2
1963	85	98	1
1964	98[a]	98	1[b]
1965	98[a]	98	1[b]
1966	98[a]	98	1[b]

[a]Per cent of secondary items.

[b]Less than 1 per cent.

Table 7 illustrates the impact of turnover on the principle of a revolving fund. The Marine Corps turnovers of capital and operating stocks for 1966 were .82 and 1.7 respectively, while those of the Air Force were 7.3 and 16.6 respectively. The immediate inference is that either the Marine Corps' Stock Fund is unsatisfactory or the Air Force better managed. No complete justification can be obtained by applying these ratios to all inventories. Each category of material to be properly analyzed must be appraised on an individual basis. For example, in the Air Force, as in the case of the Marine Corps, many items in the subsistence (commissary) area are procured from contractors and delivered directly to the consumer.

TABLE 6

INVENTORY VALUATION BY CATEGORY[a]
FISCAL YEAR 1966

MATERIAL CATEGORY	MARINE CORPS		ARMY		AIR FORCE	
	NUMBER LINE ITEMS	VALUE MILLIONS	NUMBER LINE ITEMS	VALUE MILLIONS	NUMBER LINE ITEMS	VALUE MILLIONS
Clothing & Textiles	13,298	$ 35.2	1,024	$ 231.2	1,925	$ 14.1
Commissary Stores	3,500	3.1			2,230	59.8
Fuel/POL	126	0.9	290	99.7	41	202.9
Signal/Electronics	90,703	36.4	133,745	280.9		
Engineer Supplies and Construction Equipment	47,733	27.1				
General Property	124,995	39.3	3,976	105.2		
Ord/Tank/Auto	42,859	71.2	72,251	345.5		
Air Material			62,072	336.5		
General Forces Support			67,891	303.5		
Industrial Supplies			1,787	27.9		
Missile and Rocket Parts			61,594	172.8		
Spl. Weapons and Chemical			12,671	30.4		
Weapons and tools			33,401	195.5		
Medical Dental Material			6,607	93.1		
Defense Supply Service				.8		
Air Force Academy					5,100	1.0
Subsistence	745	5.8	32	220.9		
TOTAL	323,959	$ 219.0	457,341	$2,443.9	9,296	$ 277.8

[a]U.S. Department of Defense, Working Capital Funds of the Department of Defense, 30 June 1966.

TABLE 7

CAPITAL AND INVENTORY TURNOVER[a]
FISCAL YEAR 1966

ITEMS	MARINE CORPS	ARMY	AIR FORCE
Sales (reimbursable issues) (millions)	$ 193.0		$ 2,920.0
Total inventories (millions)	$ 219.0	$ 2,444.5	$ 278.0
Operating stock (millions)	$ 114.0	$ 1,395.0	$ 176.0
Operating stock percentage of total inventory %	52%	57%	63%
Operating stock turnover based on sales (times)	1.7	2.3	16.6
Total capital (end of period)	$ 233.0	$ 2,633.5	$ 399.7
Capital turnover based on sales (times)	.82	1.2	7.3

[a]U.S. Department of Defense, Capital Working Funds of the Department of Defense, 30 June 1966.

While consideration must be given to the nonperishability of many subsistence items, it must be recognized that many items, such as dairy products (including milk, ice cream, eggs) are not actually stored by the Air Force and Marine Corps. Although there may not be a need to stock these perishable items, there is nevertheless a need for selling the items to the user. Needless to say, whenever a direct delivery system is used, there is a rapid turnover rate; consequently, the turnover rate for fast moving items such as perishables would be far greater than the slower moving items actually stored by the services in their supply system.

An examination of those categories of items possessing all of the desirable characteristics for inclusion in the Marine Corps Stock Fund will serve to prove this point. These items have a relatively high turnover and require a smaller amount of investment capital. They include the categories of clothing and textiles, subsistence, commissary stores and fuel.

Table 8 shows the total inventory and the operating stocks for these categories for Fiscal Year 1966. They account for 20.5 per cent of the total inventory value and 27.5 per cent of the operating stocks. The clothing and textile category accounts for the largest money value and includes many Class IV and chemical warfare items (these are items procured and held for use under specified conditions; for example,

TABLE 8

MARINE CORPS STOCK FUND
OPERATING STOCKS AND TOTAL INVENTORY[a]
SELECTED CATEGORIES
FISCAL YEAR 1966

MATERIAL CATEGORY	TOTAL INVENTORY		TOTAL OPERATING STOCKS	
	VALUE (MILLIONS)	PER CENT	VALUE (MILLIONS)	PER CENT
Clothing & Textiles	$ 35.2	16.0	$ 21.5	19.0
Subsistence	5.8	2.7	5.8	5.0
Commissary Stores	3.1	1.4	3.1	2.7
Fuel	.9	.4	.9	.8
GROUP TOTAL	$ 45.0	20.5	$ 31.3	27.5
ALL OTHER	174.0	79.5	82.7	72.5
TOTAL MARINE CORPS	$ 219.0	100.0	$ 114.0	100.0

[a]Marine Corps Stock Fund Annual Report, Fiscal Year 1966.

arctic clothing, and chemical protective clothing), and for which sales are not regularly anticipated. The remaining categories account for a small percentage of the total sales.

Table 9 reflects the sales picture for these categories for Fiscal Year 1966. It is significant that approximately five per cent of the items (17,669 from Table 2) account for $117.9 million or 61 per cent of total stock fund sales of $193

TABLE 9

MARINE CORPS STOCK FUND
SALES BY SELECTED CATEGORIES[a]
FISCAL YEAR 1966

MATERIAL CATEGORY	SALES (MILLIONS)	PER CENT OF TOTAL MARINE CORPS
Clothing & Textiles	$ 45.9	24
Subsistence	29.3	15
Commissary Stores	38.6	20
Fuel	4.1	2
GROUP TOTAL	$ 117.9	61
ALL OTHER	75.1	39
TOTAL MARINE CORPS	$ 193.0	100

[a]Marine Corps Stock Fund Annual Report, Fiscal Year 1966.

million. More significant, however, is the fact that the subsistence and commissary stores categories, representing less than two per cent of stock items (4,245 from Table 2), actually represent 35 per cent of the Marine Corps total sales. As previously pointed out, many of the items in these two categories consist of perishables which are not placed in the inventory but are handled on a simultaneous receipt and sale transaction basis.

The inventory turnover for these categories are shown in Table 10. These statistics tend to support the requirement that for budgeting purposes items be included in the fund by material category. The operating stocks in these categories, taken as a group, turned over 3.7 times during the fiscal year. When compared with the turnover rate of .9 for all other categories, it is clearly evident that these categories meet the consumable, recurring demand, and "the general prudential role" criteria.

TABLE 10

OPERATING STOCK INVENTORY TURNOVER
FISCAL YEAR 1966

Material Category	Operating Stock Turnover (Times)
Clothing & Textiles	2.1
Subsistence	5.0
Commissary Stores	12.4
Fuel	3.5
COMBINED GROUP	3.7
ALL OTHER	1.0
TOTAL MARINE CORPS	1.7

Source: Tables 8 and 9.

The foregoing discussion has pointed to the difficulties involved in comparing the effectiveness, from an inventory turnover basis, of stock fund utilization by the respective services. It is important, however, that the concrete dollar and cents results of stock funding in the Marine Corps not be overlooked.

The data in Table 11 reflects the economies effected by the Marine Corps in the management of inventories by use of the stock funding technique. As depicted in this table, the total value of assets of the stock fund has declined from initial establishment to the present date. The full significance of the action is further emphasized by comparison of this data with that shown in Chart 3. Comparison of the data contained in these summaries indicates that the scope of the items included in the fund's operation has increased significantly while the capital investment necessary to support these items has been reduced.

It is important to realize how this action has been accomplished. Chart 4 shows a comparison of the sales generated during the period 1954 through 1967 with the funds reinvested in stocks. The table demonstrates the fact that sales, on an annual basis, has generally exceeded funds actually obligated for investment of new stocks. The significant variance between sales and obligations for 1966 and 1967 is due to the building of stocks in support of the war effort in Vietnam.

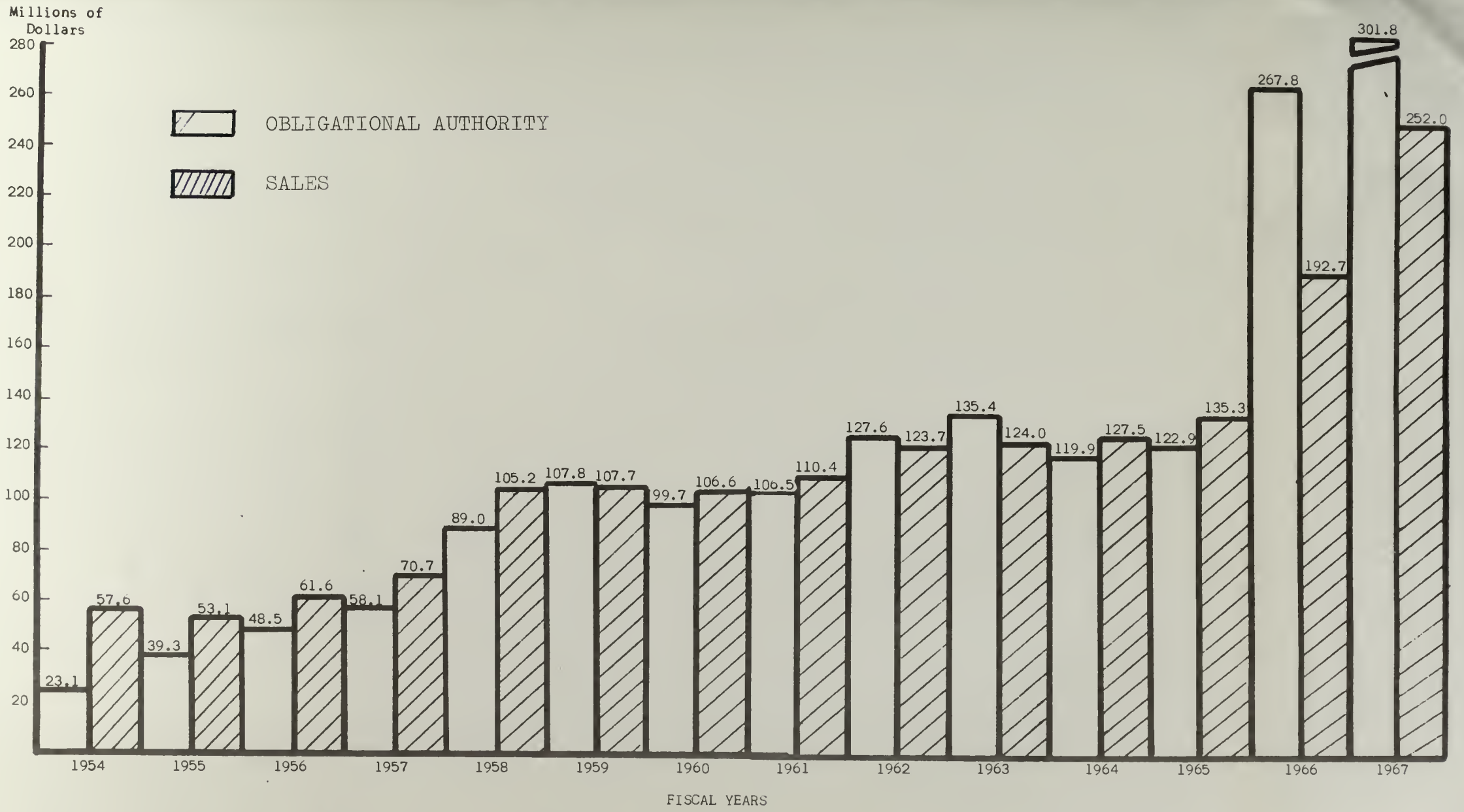
TABLE 11

MARINE CORPS STOCK FUND
STATEMENTS OF FINANCIAL CONDITION [a]
FISCAL YEARS 1954-1967
(Thousands of Dollars)

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
ASSETS														
Cash:														
Available Treasury balance	$ 74,199	$ 79,597	$ 80,262	$ 57,530	$ 52,626	$ 42,937	$ 23,147	$ 35,311	$ 30,985	$ 33,209	$ 24,419	$ 31,907	$ 28,891	$(21,517)
Accounts Receivable	260	1,268	121	725	1,482	338	1,767	384	1,189	1,626	1,176	1,167	1,114	1,550
Inventories	338,757	372,958	399,119	322,498	405,177	406,605	393,234	256,836	251,452	236,020	210,540	205,333	219,037	251,432
Undistributed charges	2,515	2,167	6,959	18,372	1	1,605	1,407	1,198	6	48	3,163	2,017	3	27,245
Other assets	8,336	10,394	23,792	9,147	1,597			18	2,003	2,268	2,055	664	396	750
TOTAL ASSETS	$424,067	$468,834	$510,253	$408,272	$460,383	$451,485	$419,555	$294,547	$285,635	$273,171	$241,353	$241,088	$249,441	$259,460
LIABILITIES AND CAPITAL														
Accounts Payable	$ 2,801	$ 3,966	$ 8,136	$ 20,414	$ 27,067	$ 39,257	$ 14,871	$ 16,417	$ 18,934	$ 16,982	$ 14,971	$ 11,047	$ 15,145	$ 19,653
Other liabilities			198		362	1,800	16,320	726	634	601	927	1,006	1,246	1,585
Total Liabilities	2,801	3,966	8,334	20,414	27,429	41,057	31,191	17,143	19,570	17,583	15,718	12,053	16,391	22,238
Capital of the Fund	421,266	462,868	501,919	387,858	433,454	410,428	388,364	277,404	266,065	255,588	225,635	229,035	233,050	237,222
TOTAL LIABILITIES AND CAPITAL	$424,067	$468,834	$510,253	$408,272	$460,883	$451,485	$419,555	$294,547	$285,635	$273,171	$241,353	$241,088	$249,441	$259,460

[a] Marine Corps Stock Fund Annual Reports, Fiscal Years 1954-1967.

SALES VERSUS REINVESTMENT OF OBLIGATIONAL AUTHORITY



Source: Marine Corps Annual Stock Fund Reports, Fiscal Years 1954-1967.

The effect of this action is shown in Table 12, which relates the funds appropriated to the Marine Corps Stock Fund since its inception to the funds rescinded by Congress or transferred to other appropriations. The data in this table points out that only $15 million has been appropriated for increasing the capital base, while $168.5 million has been returned to Congress or transferred to other appropriations.

TABLE 12

MARINE CORPS STOCK FUND
CASH RECISIONS-RECEIPTS-TRANSFERS

Returned to Treasury:

FY 1955	$25.0 Million
FY 1956	25.0 Million
FY 1957	3.0 Million
	$53.0 Million

Received from other Appropriations:

FY 1963	$ 15.0 Million	Navy Stock Fund

Transferred to other Appropriations:

FY 1957	$ 35.0 Million	Military Construction Navy
FY 1958	$ 20.0 Million	Military Personnel Navy
FY 1959	$ 25.0 Million	Military Personnel Marine Corps
FY 1960	$ 24.0 Million	Military Personnel Marine Corps
FY 1961	$ .5 Million	Military Personnel Marine Corps
FY 1962	$ 11.0 Million	Military Personnel Marine Corps

Source: Marine Corps Stock Fund Annual Reports Fiscal Years 1955-1963.

The question arises as to what has been the effect of this revision of capital upon the ability of the Marine Corps Stock Fund to support operation. To answer this, an explanation of the Department of Defense policy towards inventories is first required.

Within the Department of Defense, a process of "stratification" is utilized to segregate inventories and identify the purpose for which they are held. Inventories are broadly segregated into three basic categories, i.e., current operating stocks, mobilization stocks, and long supply stocks. Levels for peacetime operating stocks and mobilization stocks are computed on a basis of months of stock and/or specified quantity, in accordance with criteria prescribed by the Department of Defense. These requirements are then subtracted from the total inventory to identify long supply stocks which are susceptible to "eatdown" and/or disposal. It is important to realize that this stratification process is accomplished on an "item for item" basis.

The data in Table 13 reflects the stratification of Marine Corps Stock Fund inventories for the period 1957 through 1967. It will be noted that the decrease in inventory levels and total assets reflected here has been accomplished by reduction of inventories in a long supply position, which reached an apex in 1960. This is indicative of the increase in the supply

TABLE 13

MARINE CORPS STOCK FUND
STRATIFICATION OF INVENTORIES[a]
FISCAL YEARS 1957-1967

	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
Current Operating Stocks	28	57	83	52	52	83	117	113	111	114	135
Mobilization Stocks	68	71	71	58	56	62	35	38	37	42	46
Long Supply Stocks	226	277	252	283	149	106	84	59	57	63	70
Retention Stocks							18	6	15	14	10
Potential Excess							66	53	42	49	60
Total	322	405	406	393	257	251	236	210	205	219	251
Operating Stock % of Total	8%	14%	20%	13%	20%	33%	50%	54%	54%	52%	54%
Sales (Thousands)	$ 70	$105	$106	$105	$110	$124	$124	$128	$135	$193	$252
Operating Stock Turnover Based on Sales	2.5	1.8	1.3	2.0	2.1	1.5	1.1	1.1	1.2	1.7	1.9

[a]U.S. Department of Defense, Capital Working Funds of the Department of Defense, Fiscal Years 1957-1967.

of items included in the fund during the expansionary period of 1956 through 1960.

Further analysis of the data reflected in Table 13 indicates that the Marine Corps has accomplished a major reduction in the long supply position from 1960 to 1967. As of 1967 only $70 million of the inventories were in a long supply position compared with $283 million in 1960. This reduction of inventories in long supply has provided the means by which funds were available for recission by Congress or reappropriation. It may be observed that the level of peacetime operating stocks has not been affected to any significant degree by these actions. Rather, the level of inventories identified as peacetime operating stocks has been increased to support the effort in Vietnam.

Previous chapters have shown the difficulty experienced within the Marine Corps in reaching agreement concerning the scope and nature of items to be included in the Stock Fund. In spite of the internal differences of opinion that existed, the official Marine Corps policy appears to have been one of a rather liberal inclusion criteria as evidenced by the fact that approximately 98 per cent of Marine Corps inventories, on a line item basis, were included and financed by the Marine Corps Stock Fund.

The foregoing discussions have pointed to the problems of evaluating the effectiveness and efficiency of the stock fund technique as a tool of supply management. The differences in interpretation of Department of Defense inclusion/exclusion criteria by each of the individual services make comparison on this basis difficult if not impossible. Even within the Marine Corps Stock Fund itself, evaluation on a inventory turnover basis is difficult as evidenced by the nature of the commodity handled, funds invested, and the frequency of sale occasioned by the item. It appears obvious that utilization of the stock fund technique in the area of clothing and textiles, subsistence, commissary store and fuel items has resulted in a high level of effectiveness when measured by the stock turnover criteria. The degree of effectiveness in achieving a "revolving" action in the other areas is less evident. It would appear that effectiveness in these areas should not be measured by commodity, but rather by individual item. This conclusion is supported by the discussion in previous chapters concerning action taken by the Marine Corps to identify inclusion/exclusion criteria on an item for item basis rather than accepting the "category of material" approach dictated by the Department of Defense.

CHAPTER VI

THE FUTURE ROLE OF THE MARINE CORPS STOCK FUND

In 1965, actions were taken within the Department of Defense which would result in the settlement of arguments over Stock Fund criteria which have existed in the past among responsible officials at Headquarters, Marine Corps. By 1965, developments in Department of Defense financial management had progressed from the "performance budget" introduced during the era of Assistant Secretary of Defense (Comptroller) W. J. McNeil to the Planning-Programming-Budgeting System fostered by Assistant Secretary of Defense (Comptroller) Charles J. Hitch in the early 1960's.

In the summer of 1965, Robert N. Anthony was appointed Assistant Secretary of Defense (Comptroller) and fell heir to the task of making major changes in the programming, budgeting and accounting systems. The first of these actions was Project PRIME (an acronym for Priority Management Efforts), which was the development of a system to:

Assure that financial reports and cost data provided adequate support for the planning-programming-budgeting system.

See that the agencies managers are given the basic tools they need--responsibility-centered cost-based operating budgets and financial reports--for setting and achieving maximum cost reduction goals.[1]

Project PRIME focuses on "operating" as contrasted with "investment" resources and is concerned primarily with resources that are financed under Operation and Maintenance, and Military Personnel appropriations.

Dr. Anthony's views on the problem are that:

> The Five Year Defense Program is structured in terms of missions or purposes. We budget, however, on an entirely different wave length, primarily in terms of resources we acquire: military personnel, fuel, material of various types, for example. We manage in essentially the same terms with organizations at the headquarters level responsible for the acquisition of these resources, and each operating manager responsible for only a small fraction of the total resources that are covered in his allotment. One recent study, for example, indicated that the typical field manager is funded for only 20% of the resources he consumes.
>
> Such an arrangement has real weaknesses. We plan in careful detail by total costs, and by missions, as we should but our field managers focus on only the 20% of the costs for which they are funded. . . .[2]

Dr. Anthony viewed the problem as being one of distinguishing between "capital" and "operating" costs. Capital

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[1]Defense Resource Management Systems, "Project PRIME," National Security Management (Washington, D.C.: Industrial College of the Armed Forces, 1967), p. 3.

[2]Proceedings, U.S. Naval Supply [illegible], Mechanicsburg, Pennsylvania, May 4-6, 1966, p. 24.

costs are the long-lived investments that maintain their integrity throughout the period of their use, and operating costs are the resources that are consumed in achieving planned objectives. The former are managed on an item-by-item basis, and the latter by relating resources consumed to results achieved in a given period of time.[1]

In differentiating between operating and investment costs, the Department of Defense determined that the following changes were required: the accounts structure must be revised; costs of military personnel will be charged to organizational units; appropriation definitions must be purified to include only those items of an expense nature in the operating appropriations; and the working capital mechanism (stock funds and industrial funds) must be extended to include all items of an expense nature.[2]

With regard to the purification of appropriations the action involves shifting many items of repair parts and other consumables from continuing appropriations to operating appropriations. The working capital mechanism of stock funds would be extended to cover all items of material included in the operating appropriations.

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[1]Ibid., p. 25.

[2]Robert N. Anthony, "Closing the Loop," Perspectives in Defense Management (Washington, D.C.: Industrial College of the Armed Forces, November, 1967), p. 14.

Dr. Anthony further stated the motivational effect of such action:

> . . . the system should motivate managers to be more concerned about the use of resources. Of course, efficiency is only one criterion for judging a manager. But attention to efficiency must never be permitted to overshadow criterion of effectiveness, which means getting the job done, and done well. But managers need to know how efficiently their subordinates are performing their assigned missions, and the new system will help them learn this. It should be more concerned with the wise use of resources, and therefore lessen the need for exhortation, inspection, specified constraints, and other devices that are now used as a substitute for built-in motivation.[1]

In September, 1966 criteria defining "expense" and "investment" items were issued by the Department of Defense. In referring to the material aspect, expense items were defined as follows:

1. End items of equipment - items of equipment having a unit value of less than $1,000 and over which an inventory control point does not maintain centralized individual item management throughout the supply system down to the user level.

2. Nonreparable spares and repair parts including aircraft and missile spares.

3. Assemblies, spares and repair parts which, although reparable, (a) are not centrally managed recoverable items, and (b) are not designated as reparable for the reason that repair of unserviceable quantities of the items are not considered by the central inventory manager in requirements determinations.

4. Food, clothing and POL items.

5. Other expendable supplies and materials.

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[1] Ibid., p. 6.

b. All items which have been issued from working capital inventories to the point of furthest transfer or most likely end use (e.g., a combatant ship, battalion, aircraft squadron) even though not yet consumed in use.

The directive further provided definitions for investment costs associated with equipment as indicated:

1. Major items of equipment - these are items of such importance to the operating readiness of operating units that they are subject to continuing, centralized, individual item management and asset control throughout all command and support channels, and throughout their active life, from acquisition through use until wearout and disposal. Typically, such items are long-lived in use, of high dollar unit value, reparable and the subject of a control report submitted by the final user to the cognizant inventory manager.

2. Other end items of equipment. These are all other end items of military or commercial-type, including items authorized for local procurement, but excluding items of equipment having a unit value of less than $1,000 and over which a control point does not maintain centralized item management throughout the supply system down to the user level.

3. Reparable assemblies, spare parts and repair parts which are centrally managed recoverable items and which are designated as reparable because unserviceable quantities of the items are considered by the inventory manager in its requirements determination.

4. Equipment procured locally if it otherwise meets the definition of investment.[2]

The criteria utilized in distinguishing between expense and investment costs are visually portrayed in Chart 2. It is

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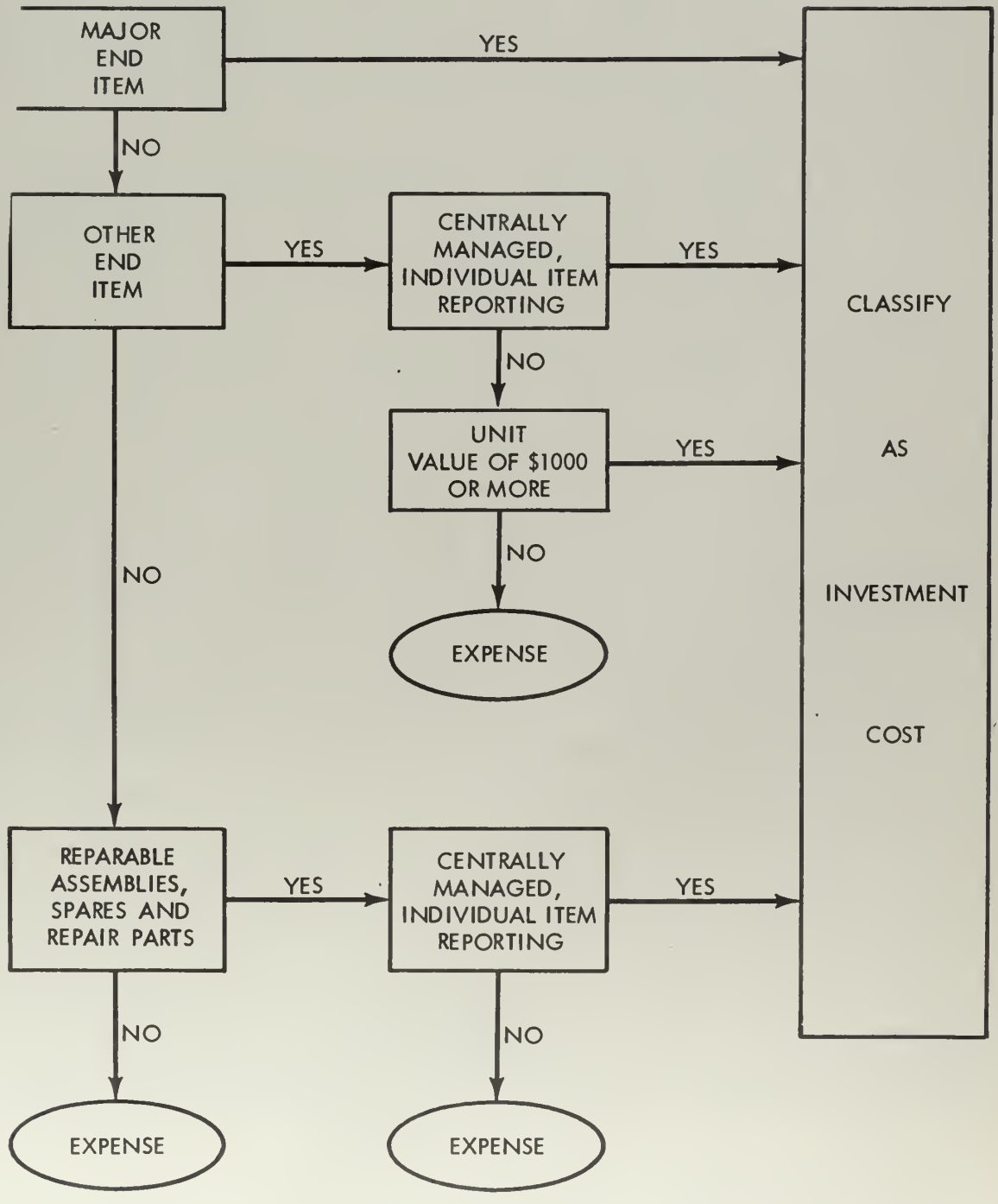
[1]U.S. Department of Defense, Definitions of Expense and Investment Costs, DOD Directive 7040.2, September 1, 1956, pp. 1-2.

[2]Ibid., pp. 3-4.

CHART 5

INVESTMENT COST DECISION DIAGRAM



Source: U.S. Department of Defense, Definitions of Expenses and Investment Costs, DOD Instruction 7040,5 September 1, 1966.

significant to note in this criteria that no exception was made for insurance, safety and depot reparable items which were subject to "exclusion" under the criteria then in use.

The Marine Corps lost little time in preparing for the changes which were to be placed in effect on July 1, 1967. On September 16, 1966 an initial list indicating those items which were to migrate from or to the Stock Fund was published to the field.[1]

Even though the implementation of Project PRIME was delayed until July 1, 1968 due to Congressional action, the Marine Corps proceeded with plans to effect the change-over as indicated. The initial list was revised in January and April of 1967.[2] At that time it was estimated that approximately 2440 items would be decapitalized from the Stock Fund and 740 items capitalized into the Fund. The unit prices of the planned for items decapitalization ranged from $0.50 to $64,050. While those being capitalized ranged from $0.02 to $990, very few items were in the higher price range.

Criteria were developed in line with the definitions and the decision table furnished by the Department of Defense

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[1]U.S. Marine Corps Headquarters, Field Budget Guidance Fiscal Years 1968/1969. Bulletin 007100 (unclassified) September 16, 1966, Part VI, Chapter 2, Annex D.

[2]U.S. Marine Corps Headquarters, Addendum to Field Budget Guidance. Fiscal Years 1968/1969 (PRIME), Bulletin 7100, April 4, 1967.

covering new items entering the supply system. The following definitions were stated as being critical to the designation of an item to be financed by the Marine Corps Procurement Appropriation or the Stock Fund:

a. End Item. A final combination of end products, component parts and/or materials, which is ready for its intended use, e.g., ship, aircraft, tank, truck, etc.

b. Principal items. End items of major importance which require detailed analysis and examination, at the level established for central control, or at the military service level, of all factors affecting their supply and demand. An end item is generally selected as a principal item on the basis of military combat or training essentiality, considering also the difficulty of procurement or production and criticality of basic materials or components.

c. Major end items: These items are '. . . of such importance to the operating readiness of operating units that they are subject to continuing, centralized, individual item management and asset control throughout all command and support echelons, and throughout an active life, from acquisition through until wear out and disposal.'[1]

A set of rules were also established, to be applied against the definitions provided, and are summarized:[2]

Rule 1:

Any item meeting the definitions quoted above which is long-lived in use, of high dollar value, reparable, and subject to routine status reporting by the using units, will be designated as an investment item.

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[1]Department of the Navy, Headquarters, U.S. Marine Corps Letter from the Commandant of the Marine Corps, CMR-1-sf/4443/1 to the Commanding General, Marine Corps Supply Activity, Philadelphia, Penna., May 8, 1967.

[2]Ibid., pp. 1-2.

Rule 2:

Any end item not included under Rule 1 but with a unit cost of $1,000 or greater will be designated as an investment item.

Rule 3:

Any end item not subject to the reporting requirements of Rule 1 and with a unit price of less than $1,000, will be designated as an expense item.

Rule 4:

All secondary depot reparables will be designated as investment items.

Rule 5:

All modification kits and modification assemblies will be designated as investment items.

Rule 6:

Any item not covered in Rules 1 through 5, and which has a unit price of $500 or greater and which is required for the support of an end item with a total Marine Corps density of less than 40 items, will be designated an investment item. The rationale in designating these items as investment costs is justified on the basis that because of the low density of the end item, field activities would not be able to prepare a Marine Corps-wide budget.

Rule 7:

All items not covered under Rules 1 through 6 will be expense items (stock-funded).

On July 1, 1967, the Inventory Control Point was to have effected the change-over of the records based on the guidance provided by Headquarters, Marine Corps. Events of the next few months provided some indications that capitalization or decapitalization was not totally effective.

who were to receive items on a free issue basis were being billed by the stock fund. This condition was eventually corrected and the record reconstructed.[1] Table 14 shows the number of items and the dollar value by material category of the overall effects of this action on the stock fund.

It is readily apparent that the changes in the criteria resulted in a net reduction of items and overall money value from Marine Corps Stock Fund. The reader will recall however, a previous discussion which pointed out that the Marine Corps is decapitalizing while the Navy and Air Force are undergoing the throes of capitalizing items which were decapitalized in 1963. in the case of the Navy, or never capitalized in the case of the Air Force. In October, 1967 it was estimated that the Navy would capitalize approximately 547,100 items valued at $1.184 million, beginning on July 1, 1968.[2]

In complying with the dicates of the Department of Defense and Dr. Anthony, the future of the Stock Fund remains a clouded issue. Items of high dollar value have been removed which in the past have made significant contributions in terms of sales to the revolving aspects of the fund. On the other

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[1]Interview with Mr. Anthony J. Varano, February, 1968.

[2]U.S. Department of the Navy, Naval Supply Systems Command, The Navy Stock Fund Reapportionment Request. Fiscal Year 1968 - Budget Estimates Fiscal Year 1968, DSD/SOO, Submission, October 10, 1967, pp. C-7.

TABLE 14

INTER ACCOUNT TRANSFERS

MATERIAL CATEGORY	TRANSFERS FROM ASA TO SFA ACCOUNT		TRANSFERS FROM SFA TO ASA ACCOUNT	
	ITEMS	VALUE (THOUSANDS)	ITEMS	VALUE (THOUSANDS)
General Property	134	$ 294	76	$ 870
Ord-Tank-Auto	73	223	329	18,219
Engineer Supplies and Construction Equipment	69	997	257	5,700
Communications-Electronic-Electric	158	1,121	699	7,402
TOTAL	434	$ 2,635	1,361	$32,191

Source: Budget Programs/Plans/Investment Branch, Financial Management Division, Supply Department, Headquarters, U.S. Marine Corps.

base. Many technical items which have contributed to low turnover rates have been financed by the stock fund. These factors require additional study and analysis during the next few years, based on the experience of the past.

Dr. Anthony's initial limit of $1,000 for expense items appears to be arbitrary. As in the past, new criteria will undoubtedly be proposed. The crux of the matter, however, is that if comparable limitations are enforced based on arbitrary values the full benefits of stock fund financing will not be achieved.

CHAPTER VII

SUMMARY AND CONCLUSIONS

Summary

It has been the purpose of this paper to investigate the development of the Marine Corps Stock Fund, to evaluate its practical application in effecting economies in supply management, and to consider its future role.

Utilization of the stock funding technique is neither a new nor unique technique for use in supply management, nor is it a panacea for all the problems encountered in the management of inventories of the military services. Stock funding does, however, provide a common denominator for evaluating actions taken in the management of material inventories. This common denominator is the dollar, and utilization of the stock funding technique provides the basic criterion which is absent in other forms of inventory financing and management.

It has been shown that the Navy was the originator of the stock funding technique for improved management of inventories with establishment of the Naval Supply Fund in 1955. Recognition of this tool for supply management by the other

military services was exceedingly slow. Formal recognition was not a result of internal decision but was fostered because of the pressing actions of the first Hoover Commission Report in 1949 for improvement of financial management within the military services. The actions of this Commission resulted in amendments to the National Security Act of 1947, which provided the Secretary of Defense with the authority to utilize stock funds within the military services. This provided a means of more effective control and accountability for the cost of programs within the Department of Defense.

It has been demonstrated that with regard to the Marine Corps, the Secretary of Defense was slow in exercising the prerogative granted him by the Congress. While many intervening circumstances may be offered as reasons for delay in implementing the Marine Corps Stock Fund, the basic fact remains that pressure by Congress was necessary to establish the fund.

Public Law 488, 82nd Congress placed implementation of the stock fund on an economic basis, i.e., either establish the stock fund or subsequent requests for appropriations for inventory financing would be denied. Once faced with this challenge, the Marine Corps was quick to respond and in nine short months developed the groundwork and supplementary requirements necessary to implement the Marine Corps Stock Fund on July 1, 1953. The Marine Corps was quick to make the maximum

utilization of this tool of supply management. Department of Defense criteria for item inclusion were based upon broad category applicability; however, the Marine Corps recognized a fallacy in this type of philosophy with regard to their type of activity. It attempted to develop a more definite criteria based upon characteristics of the items rather than by categories.

It has been shown that criteria developed by the Marine Corps for inclusion/exclusion of items were recognized by the Department of Defense. This is evidenced by the fact that item inclusion/exclusion criteria developed by the Marine Corps in 1960 were almost wholly adopted by the Department of Defense in a 1962 study which was subsequently applied to all military services in 1963.

Establishment of a measure for the degree of effectiveness of the stock funding technique is extremely difficult. Comparison of results of the Marine Corps Stock Fund with that of the Air Force and Army points to the difficulty in comparative analysis. While evaluation on a general category basis, i.e., clothing and textiles, commissary stores, subsistences, and fuels provides some commonality, the general area of effectiveness of stock funding technical items must be evaluated on an item for item basis rather than by general category. In spite of the problems in resolving an absolute measure of

effectiveness of the Marine Corps Stock Fund, the fundamental fact remains that a degree of effectiveness and efficiency has been achieved.

Since establishment of the stock fund in 1953, the Marine Corps has returned $53 million to treasury coffers and made $115.5 million available for transfer to other military appropriations. This action was permitted by the reduction of inventory surpluses which existed. It must be pointed out that the stock funding technique offers this alternative of recouping funds invested in excess levels of inventory. Other means of financing do not offer this prerogative.

In anticipating the future of the Marine Corps Stock Fund, the picture is quite obscure. Department of Defense criteria for item inclusion/exclusion appear rather arbitrary, as evidenced by the definitive $1,000 line item value for distinguishing between stock fund items and Appropriation Stores Account items. It would appear that the criteria developed by the Department of Defense for items to be included within stock funds are only a refinement of the "category of material" philosophy that has been espoused by the Department of Defense since 1954.

Conclusions

Stock funds had been utilized within the Navy for many years before 1949, when the Secretary of Defense was authorized to implement this tool of management within the other military services. In spite of the advantages of such a system, it was only after continued pressure by the Congress in calling for increased uniformity among the services in the operation of military supply systems that the Department of Defense and the Secretary of the Navy required the Marine Corps to establish a stock fund.

Although it is difficult to compare the effectiveness and efficiency of stock fund operations between services because of the inclusion/exclusion criteria, the economies effected in the Marine Corps can attest to the value of the stock fund technique. The dollar returns to Congress make a "show case" exhibit of what may be considered as a measure of success. In the realization, however, of this business-like type of management, operating managers have become more accountable for the effective utilization of money and material. By including 98 per cent of Marine Corps line items in stock fund inventories, the free issue system was somewhat eliminated, and enforced supply discipline through cost-consciousness incentives on military managers.

It is further concluded that certain material categories (clothing and textiles, subsistence, commissary stores, and fuel) are without question susceptible for inclusion in a stock fund. Other categories must be examined on an item for item basis. The extension of stock funding to include all types of expense items will result in holding, in suspense, items which previously met criteria for exclusion from the fund. The arbitrary limit of $1,000 is subject to further scrutiny. Under this philosophy it would appear that a clear distinction must be made between the historic use of the stock fund with its revolving characteristic as contrasted with the working capital fund concept espoused by Dr. Anthony.

The military services, and the Marine Corps in particular, are familiar with the stock fund and requirement to maintain its revolving nature. Less clear, however, is the nature of the term "working capital fund" as discussed by Dr. Anthony. The author has been unable at this point to determine what is intended by Dr. Anthony and the Department of Defense. Does the term "working capital fund" carry the connotation that items included within stock funds must "revolve" or is there some further interpretation of the term? Regardless of the purpose, it would appear that a working definition of the term "working capital fund" be made known. To date, such an explanation has not been promulgated by the Department of Defense.

nor has a measure to evaluate stock funds under such a definition been delineated.

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APPENDIX A

CHARTER FOR MARINE CORPS STOCK FUND
Approved June 1, 1953

CHARTER
FOR
MARINE CORPS' STOCK FUND

I Authority

The Marine Corps Stock Fund is hereby established pursuant to Section 405 of the National Security Act Amendments of 1949.

II Purpose

To provide for Stock Fund financing of all depot or bulk stocks of materials and supplies held for sale or issue that meet the criteria to be established under regulations to be prescribed by the Secretary of Defense.

III Effective Date

Marine Corps Stock Fund will commence operations as of 1 July 1953.

IV Management of the Fund

Under the direction of the Commandant of the Marine Corps, the Quartermaster General of the Marine Corps will administer and manage the Marine Corps Stock Fund in conformity with such policy statements and appropriate regulations as may be issued by higher authority.

V Functions and Responsibilities

With respect to the materials and supplies financed under the Stock Fund, the responsibilities of the Quartermaster General of the Marine Corps include, but are not limited to:

a) Management of the fund in such a manner as will obtain optimum use of fund capital with minimum stock levels.

b) Formulation and establishment of operating procedures as required.

c) Computation of prices and promulgation of necessary catalogs and price lists.

d) Administration of funds made available for operation of the fund.

e) Management of acquisition, storage, control and distribution of inventories.

f) Maintenance of required accounts and records.

g) Preparation of required fiscal and financial reports and statements.

VI Material Categories

a) Marine Corps supply classifications will be sub-divided for the purpose of identifying categories which meet the criteria for stock fund financing. The stock fund account will encompass all inventories at establishments identified under Section VII of all supply groups under the categories so identified by Marine Corps Supply Bulletins and Catalogs, including, but not limited to Individual Clothing, Non-perishable Subsistence, Electronics, Engineer, General Supply, Motor Transport, and Ordnance.

b) For all selected Stock Fund categories, the Stock Fund will include: (1) Serviceable material, both new and used; (2) unserviceable material; (3) excess and surplus material pending disposal; and (4) mobilization or special reserve stocks.

VII Establishments Included

a) All types of Marine Corps Depots.

b) Marine Corps Schools, Quantico, Va.

c) Major Marine Corps Air Stations in Continental U. S.

d) For Individual Stocking only, all regular Marine Corps units except those on combat accountability.

VIII Authorized Purchasers

Authorized purchasers of materials and supplies acquired, stored, and issued by the Marine Corps Stock Fund, include such parties as may be authorized by competent authority in accordance with law and subject to such regulations as may be issued by the Secretary of Defense.

IX Initial Working Capital

Initial capitalization in the Marine Corps Stock Fund as of 1 July 1953, will consist of:

a) Cash.

b) The value of supplies on order and undelivered which have been obligated under and will be paid for from annual appropriations for Fiscal Year 1953 or prior years.

c) Value of [illegible] stocks at all installations in which stocks are maintained as identified in Section VII above.

d) A liability in the form of a stock withdrawal credit to be based on amount of approved budget requirements for stock fund issues in excess of available [illegible] for Fiscal Year 1954, such credits to be pro-rated and distributed on same basis as cash allotment for

X Exceptions to Approved Policies for Stock Fund Operations

The requirement that price differentials be established to recognize the difference in value of new items and items in less than new condition is waived until stocks can be accurately classified as to condition and proper price differentials established, but not later than 30 June 1955.

APPENDIX B

CHARTER FOR MARINE CORPS STOCK FUND
Approved March 12, 1958

DEPARTMENT OF DEFENSE
DEPARTMENT OF THE NAVY
CHARTER FOR THE MARINE CORPS STOCK FUND

I. AUTHORITY

The Marine Corps Stock Fund, established under charter approved 1 June 1953, is hereby re-established under the authority contained in Section 405 of the National Security Act of 1947, as amended, and Regulations Governing Stock Fund Operations (DOD Directive No. 7420.1) approved by the Secretary of Defense 1 February 1954.

II. PURPOSE

To provide a simplified and effective means of managing, controlling, financing and accounting, through the use of working capital funds, for such materials, supplies and equipment as are identified under Section IV hereafter.

III. MANAGEMENT

Under the direction of the Secretary of the Navy and the Commandant of the Marine Corps, the Quartermaster General of the Marine Corps will administer and manage the Marine Corps Stock Fund in conformity with such policy statements, appropriate regulations and procedures as may be issued by higher authority. The Marine Corps Stock Fund as covered by this charter excludes all material, supplies and equipment financed under the Navy Stock Fund which is established by separate charter and managed by the Chief of the Bureau of Supplies and Accounts.

IV. INVENTORIES

All materials procured and/or stored in the Marine Corps supply system for issue for maintenance and operating purposes are authorized to be carried in the Marine Corps Stock Fund. Normally, this will include all consumable types of material and relatively minor items of equipment, including parts and components used in the manufacture, assembly, maintenance or rebuild of end-items for the military supply system.

The major categories of material approved for financing by the Marine Corps Stock Fund are set forth in the Appendix attached to and made a part of this charter. All secondary items within these categories of material (including spare parts) currently otherwise financed shall be included in the Fund as expeditiously as possible.

V. DISTRIBUTION LEVELS

All material authorized to be purchased by the Marine Corps Stock Fund will be carried in the Fund at all supply centers, depots, and at designated stations and units as authorized and published in the Navy Comptroller's Manual, until sold or issued for use or until other disposition is made.

VI. OPEN ALLOTMENTS

Open allotments may be issued as authorized and published in the Navy Comptroller's Manual.

VII. EXCEPTIONS TO REGULATIONS GOVERNING STOCK FUND OPERATIONS

As an interim measure, the following exception is granted pending revision of the Regulations:

The requirements of paragraph 12(c) are waived to permit the Department of the Navy to determine whether direct expenses shall be charged to the gross proceeds of sale of excess and surplus property credited to the cash account of the fund.

SUBMITTED FOR APPROVAL 10 FEB 1956

W. B. Franke

ASSISTANT SECRETARY OF THE NAVY (FINANCIAL MANAGEMENT)

APPROVED: MAR 12 1956

ASSISTANT SECRETARY OF DEFENSE (COMPTROLLER)

APPENDIX C

CRITERIA FOR EXCLUSION OF ITEMS FROM THE MARINE CORPS STOCK FUND

CRITERIA FOR EXCLUSION OF ITEMS FROM THE MARINE CORPS STOCK FUND

1. Exclusions. Items which meet one or more of the following criteria will be excluded from the Marine Corps Stock Fund:

a. Principal Items

(1) Definition. These are end items, replacement assemblies, and parts of such importance that individual item management throughout the supply system, to include depot level, base level, and items installed or in the hands of using units, is required. These specifically include items requiring central inventory control, including computation of requirements, central procurement, central direction of distribution, and central knowledge and control of all assets owned by the Marine Corps. Under this criterion are items for which budget procurement requirements, quality control, and/or assignment to use require continuing logistics engineering or fiscal administration and control at this Headquarters.

(2) Supplemental Criterion. Principal items are further defined as those items for which there is a requirement at this Headquarters for knowledge of condition, location, and quantity of all Marine Corps assets thereof.

Examples: Tank, radar, ammunition, truck, radio, individual weapon.

b. Items Coded for Repair Through Depot Level

(1) Definition. These are not to be construed as all reparable items. These are major items--components/assemblies/end items--requiring mandatory exchange or return by users for fifth echelon repair by centers, cross-servicing, or contractors. Normally, these items would have the characteristics of principal items in that they require centralized individual management.

(2) Supplemental Criterion. In order to qualify under this criterion, a major item must have all of the following characteristics which would make it a logical candidate for planned fifth echelon repair to meet projected replenishment requirements for serviceable assets in the stores system:

(a) It is a maintenance-significant component.

assembly, or subassembly; i.e., it qualifies for recoverability Code R, as defined in paragraph 302.2a(14)(c), part V of MCO 4440.14.

(b) Its rebuild entails skills, repair parts, tooling, and testing not available in the Fleet Marine Forces or authorized by the maintenance allocation.

(c) It can be rebuilt within the resources of Marine Corps supply center cross-servicing or commercial sources.

(d) There is a 65% probability that the item, when unserviceable, can be rebuilt at less than 65% of the replacement cost, based upon best available technical opinion derived in conjunction with contractor engineering data and recommendations.

(e) The average serviceable use period of the item after rebuild is greater than 90% of the average serviceable use period of a new item.

c. Insurance Items

(1) Definition. These are items which are not certain to fail (no failure is predicted through usage); but, if a failure is experienced or loss occurs through accident, lack of replacement item would seriously hamper the operational capability of the equipment affected. Therefore, such items are purchased on a limited quantity basis primarily because of the consequence of failure or loss, rather than the probability of such an occurrence.

(2) Supplemental Criterion. In this category are items which are stocked "just in case" of an accident, loss, or failure. These are items on which no replenishable demand is anticipated.

d. Items in Research and Development Stage

(1) Definition. These are equipment and supporting repair parts undergoing rapid design change or modification such that design will not remain stable through an adequate usage development period before being replaced by another item.

(2) Supplemental Criterion. Items subject to this criterion are those procured for research and development purposes only, and those for which a design change is anticipated within 1 year after their procurement for in-service use.

e. Items Having Insufficient Recurring Demand

(1) Definition. These are items whose future sales are not likely to maintain the Fund's revolving nature by return of the stock investment because of little or no recurring demand. Items falling within this criterion include, but are not limited to, the following:

(a) Items procured and issued for a specific activity and not planned to be replenished or available for general use.

(b) Class IV items and Class II, Type I chemical warfare items.

(c) Items designed for "one-time" installation on an end item; e.g., a modification kit. (Such a kit is defined as one which meets the following requirements: (i) It is procured containing all material necessary to perform a modification, and (ii) It consists of two or more items, at least one of which is not in the master inventory record (MIR) and not stocked in the Marine Corps supply system.)

(d) Items used on an initial basis only with required upkeep accomplished through component replacements; e.g., sets, kits, chests.

(2) Supplemental Criterion. None.

f. Locally Controlled Items Purchased for Immediate End Use

(1) Definition. These are items which are not used consistently and, therefore, do not require an operating level. These items will not be included in the stores system.

(2) Supplemental Criterion. This criterion includes those items not stocked in the Marine Corps supply system due to insufficient demand pattern. 1/

Examples: Musical instruments, office furniture, unit maintenance items, office machines, quarters furniture, training aids, office machine repair parts, COMAL items.

1/ These items will be financed with end use funds.

APPENDIX D

GLOSSARY OF TERMS[1]

[1]U.S. Department of Defense, Glossary of Terms Used in the Areas of Financial, Supply and Installations Management, DOD Instruction 5000.8, June 15, 1961.

Account. (1) A record (usually one of a number of similar records in a book called a "ledger," or in some comparable system) of transactions relating to a person, an item of property or other asset, a liability, another unpaid obligation, capital, available fund balances, or to elements of revenues, or funds made available, and obligations, costs, or expenditures, for a given fiscal period. May also include a summary record of such transactions (see "account, control"). (2) A title of such an account (or a designated group of accounts) for use in budgets and reports. (3) An appropriated fund or other fund, or the title thereof. (4) A summarized presentation of transactions in a financial statement in ledger-account form. (5) The rendering of an accounting.

Accounts, budgetary. A category of special accounts required in accounting for expendable funds (other than those accounts which would also be required under the accrual basis of accounting) in order to show balances available for obligation. Includes "anticipated reimbursements (or revenues)", "contracts and orders outstanding", and "balance available for obligation" (broken down as desired --such as "commitments outstanding", and "budget reserves"). Distinguished from "proprietary accounts" (q.v.).

Accounts payable. Amounts owed to creditors, other than on loans. May include amounts appropriately billed or billable under contracts for progress payments, or earnings of contractors held back, as well as amounts due upon actual deliveries of goods and services. (Part of direct liabilities and unpaid obligations.)

Accounts receivable. (1) Amounts owing from debtors on open accounts. (2) Under appropriated funds, amounts owing from debtors for reimbursements earned, or for appropriation refunds due but not offset against amounts payable under vouchered invoices, payrolls, etc.

Account, stores. An account reflecting the cost and/or quantity of materials, supplies, and similar property on hand and available for issue.

Accounting, budgetary. The accounting for commitments, obligations, costs, and expenditures, and for revenue reimbursements (anticipated as well as earned), in relation to budget estimates and limitations.

Accounting, inventory. The establishment and maintenance of accounts for materiel in storage, in process of manufacture, on hand, in transit, and on consignment, in terms of cost and/or quantity, including the rendition of inventory reports.

Accounting, stores. That part of property accounting (q.v.) concerned with materials, supplies, and equipment in storage as distinguished from capital property (q.v.) and equipment in use.

Allocation, fund. (1) In the military establishment signifies the action of "funding" (q.v.) an "operating agency" (q.v.) -- i.e., the administrative action within a military department of granting and limiting authority to an operating agency, based upon review and approval of its operating budget, to incur obligations and make expenditures under a given "appropriation" (q.v.), and to make suballocations and allotments therefor. (2) An administrative subdivision, created by such funding action, of an appropriation or other fund. (3) As used by the Bureau of the Budget and the Treasury Department, an amount set aside by an agency in a separate appropriation account for the use of another agency in carrying out the purpose of an appropriation. Includes amounts set aside on the books of the Treasury in "transfer appropriation accounts".

Allotment, fund. (1) The administrative action of "funding" (q.v.) an "operating unit" (q.v.)--i.e., granting and limiting authority to incur obligations and expenditures under a given "appropriation" (q.v.), and to make suballotments therefor, based upon review and approval of an operating budget of the operating unit. (2) An administrative subdivision, created by such funding action, of an appropriation or other fund.

Apportionment. A determination and limitation by the Bureau of the Budget as to the amount of obligations or expenditures which may be incurred (or authorized to be incurred) during a specified period, under an appropriation or other fund, contract authorization, other statutory authorization, or a combination thereof. An apportionment may limit amount

all obligations to be incurred during the specified period within an appropriation or other fund account, or obligations to be incurred for an activity, function, project, object, or combination thereof. When so specified, the limitations apply to accrued expenditures rather than obligations.

Appropriation. An authorization by an Act of Congress to incur obligations for specified purposes and to make disbursements therefor out of the Treasury.

Assets, current. Cash and any other assets on hand or earned which may reasonably be expected to be realized in cash or consumed during the normal operating cycle of the business.

Balance available for obligation. (1) Remainder of fund resources, after deducting unpaid obligations, with respect to an appropriated fund or subdivision thereof. (2) Remainder of funds made available by appropriation or a subdivision thereof, including reimbursements earned or anticipated to be earned, after deducting obligations incurred. The amount determined by either of these two methods is identical; it measures, as a limitation, additional obligations which may be incurred. Syn. "unobligated balance."

Balance sheet, fund. A statement of the financial position of an accounting entity at a specified date, usually prepared from books kept by double entry, showing the fund resources, unpaid obligations, and balances available for obligation for each expendable fund (or fund subdivision). May include summary balance sheets of revolving funds and a statement of property resources acquired from expendable funds, or such statements of other resources and funds may be separately provided.

Budget. (1) A planned program for a fiscal period in terms of (a) estimated costs, obligations and expenditures, (b) source of funds for financing, including reimbursements anticipated and other resources to be applied, and (c) explanatory and workload data on teh projected programs and activities. (2) To prepare such a program.

Budget, operating. A budget, currently revised, which is the basis of budget authorization, apportionment or funding, and financial control of obligations, costs, and expenditures, in the execution of a program or programs.

Distinguished from the "President's Budget" which is used to justify appropriation requests. In the case of construction programs, includes "construction directives" (q.v.

Budget, performance. A budget based upon programs, functions, and projects, which would focus attention upon the general character and relative importance of the work to be done, or upon the service to be rendered, rather than upon the things to be acquired such as personal services, supplies, equipment, etc.

Buyer-seller relationship. The relation of an ordering activity to a performing activity (both being within the Federal Government) with respect to work or services performed or materiel furnished under an order on a reimbursable basis. These two activities may be within the same military department, operating agency, or installation.

Capital, working. Excess of current assets over current liabilities.

Commitment. A firm administrative reservation of funds, based upon firm procurement directives, orders, requisitions; or requests which authorized the creation of an obligation without further recourse to the official responsible for certifying the availability of funds. Differs from term used in business, where it means a contract or other legal obligation for goods or services to be furnished; see obligation.

Control, inventory. That functional phase of supply operations which is concerned with applying managerial supervision to integrate the actions of requirements computation, production, procurement, distribution, maintenance, and disposal of materiel within a supply system.

Equipment allowance lists. (generic term) Publications, or sections thereof, in the military services which prescribe the equipment and weapons authorized for military organizations, air units, aboard ships, individual military personnel, and administrative equipment at posts or bases.

Expenditures. (1) In the Federal Government means "cash disbursements" (q.v.). (2) Outside the Federal Government means the same as "accrued expenditures" (q.v.).

Expense. (1) Costs of operation and maintenance of activities on the accrual basis for a fiscal period, as distinguished from costs of acquisition of property. (2) Signifies cost of all services received and consumable material used or withdrawn for use for a given fiscal period. Does not necessarily include depreciation of facilities and equipment. See cost.

Federal Catalog System. A Department of Defense program established pursuant to law to provide common identification language, eliminate different identifications of like items, reveal interchangeability among items, aid in standardization, facilitate inter- and intra-departmental logistical support, assist industrial mobilization and strengthen Government-industry relationships to improve supply management and military effectiveness and promote efficiency and economy in logistics operations.

Fiscal year, current. The fiscal year in progress but not completed.

Fund, capital. A fund established for the purpose of carrying on a business-type activity, or for investment in securities or other income-producing property, based upon the primary objective of maintaining the capital of the fund from income. (Outside government, there is usually the objective of producting a profit for addition to capital and/or distribution to holders of the fund equity.) Usually includes fixed assets as well as working capital. Distinguished from an "expendable fund" (q.v.). In government, a "revolving fund" (q.v.) is an example of a capital fund.

Fund, revolving. A fund established to finance a cycle of operations to which reimbursements and collections are returned for reuse in a manner such as will maintain the principal of the fund; e.g., "working capital funds", "industrial funds", and "loan funds".

Fund, stock. A type of "working-capital fund" (q.v.) established to finance inventories of consumable materiel.

Inventory. (1) The amount of property on hand at any given time. (2) Any itemized list of such property. (The list may show such information as class, item number, name, quantity on hand, unit price, and value). (3) A physical count of property on hand (or weight or other measurement). (4) The act of compiling such a list. (5) The act of inspection to determine the physical existence of property.

Inventory-control point. An organizational unit within the supply system of a military service which is assigned the primary responsibility for the management of a group of items, either within a particular service or for the Department of Defense as a whole, including computation of quantitative requirements, the authority to recommend procurement or initiate disposal, development of world-wide quantitative and monetary inventory data, and sometimes the positioning and repositioning materiel.

Inventory manager. The head of a supply echelon having system-wide direction and control of supply responsibilities for an assigned commodity, category or group of commodities or categories.

Inventory-in-transit. That materiel in the military distribution system which is in the process of movement from point of receipt from procurement and production (either contractor's plant or first destination, depending upon point of delivery) and between points of storage, and distribution.

Inventory turnover. (1) An average ratio for purposes of inventory analysis: annual sales or issues at cost divided by average peacetime operating stocks only. May be computed on an equivalent basis with use of data for a period less than a year. (2) The number of times on the average an entire inventory is sold or issued in one year.

Issues, free. Materiel provided for use or consumption without charge to the fund or fund subdivision which finances the activity to which issued.

Issues, reimbursable. Materiel provided for use or consumption (or for stock) on the basis of charge to the consignee's funds and reimbursement to the applicable fund which finances procurement of the materiel.

Item, common. (1) Any item of materiel which is required for use by more than one activity. (2) Sometimes loosely used to denote any consumable item except repair parts or other technical items. (3) Any item of materiel which is procured for, owned by (service stock), or used by any military department of the Department of Defense and which is also required to be furnished to a recipient country under the grant-aid Military Assistance Program. (4) Readily available commercial items. (5) Items used by two or more military services of similar manufacture or fabrication

which may vary between the services as to color or shape (as vehicles or clothing). (c) Any part or component which is required in the assembly of two or more complete end-items. Syn. "common-use item".

Items, principal. End-items of major importance which require detailed analysis and examination, at the level established for central control, or at the military service level, of all factors affecting their supply and demand. An end-item is generally selected as a principal item on the basis of military combat or training essentiality, considering also the difficulty of procurement or production and criticality of basic materials or components.

Items, secondary. All items in the military supply systems that do not meet the criteria established in the definition for principal items.

Liabilities. Amounts owed under obligations for goods and services received and other assets acquired: includes accruals of amounts earned but not yet due and progress payments due on contracts. Excludes "contracts and orders outstanding" (q.v.).

Mamagement, financial. That area of management concerned with planning, administration, and control of use of resources (property as well as funds) in monetary terms. See "comptroller."

Management, supply. The exercise of direction and control of all phases of supply operations, including the functions of cataloging, identification, standardization, requirements determination, procurement, inspection, quality control, storage, distribution disposal, arrangement for transportation, maintenance, mobilization planning, industrial readiness, planning and item management classification.

Material. (1) Raw, crude or partially processed items which have not yet been brought into a definite functional shape. (2) Inventory on which manufacturing or processing must be done prior to sale or use.

Materiel. All items of personal property necessary for the equipment, maintenance, operation and support of military activities without distinction as to their application for administrative or combat purposes.

Materiel category. The broadest inventory classification which consolidates, for management and accounting purposes, the items in various groups and/or classes of the general supply classification, on the basis of their application, cognizant inventory control points, or other significant relationships in supply management.

Materiel, consumable. Materiel which after issue from stock is consumed in use or which, while having continuing life, becomes incorporated in other property, thus losing its identity when it is dropped from property accountability (for example, spare parts). Excludes major components of equipment, such as aircraft engines, ship propeller shafts, and electronic "black boxes."
NOTE: It is impracticable to establish by definition a precise dividing line between consumable materiel and "capital-type" materiel with respect to components of equipment. However, any components of equipment which are susceptible to cost control upon the basis of budgeting and accounting for the cost of consumption should be considered to be consumable materiel, and all other components should be considered to be capital-type materiel.

Materiel-distribution system. That complex of facilities, installations, methods, and procedures, designed to receive, store, maintain, distribute, and control the flow of military materiel between the point of receipt into the military system and the point of issue to using activities and units.

Obligational authority. (1) An authorization by Act of Congress to procure goods and services within a specified amount, either by appropriation or otherwise, such as by unfinanced contract authorization (q.v.). (2) The administrative extension of such authority, as by apportionment or funding (q.v.). (3) The amount of authority so granted.

Obsolescence. (1) The decrease in utility of a tangible asset due to economic, social, or technological changes which have brought about development of something new to meet new demands or which have increased efficiency in production or use (also see depreciation). (2) The cost applicable thereto.

Peacetime acquisition objective. The maximum quantity of materiel to be maintained on hand and on order to sustain current operations. It will consist of the sum of the following:

(b) Safety level: The quantity of material, in addition to the operating level of material, required to be on hand to permit continuous operations in the event of minor interruptions of normal replenishment or unpredictable fluctuations in issue demand.

(c) Procurement lead time level: The quantity of materiel needed to meet requirements during the time elapsing between the initiation of procurement action and the receipt into the supply system of materiel purchased as a result of procurement action. Procurement lead time is applicable to materiel obtained from any source outside the supply system of that service, such as by manufacture within that service.

(d) Special requirements; The quantities of materiel required for specific, approved, non-recurring peacetime programs, such as provisioning and overhaul programs.

Peacetime-acquisition stock. The portion of the total quantity of an item designated to meet the Peacetime Acquisition Objective.

Policy. A settled course adopted or prescribed to be followed by an individual or group of individuals. Policy should be based upon "principle" (q.v.), but must reconcile therewith practical considerations having a bearing on timely, effective action.

Procedure. (1) The means or methods by which action shall be taken consistent with applicable "principles" (q.v.). (2) A means of implementing "policy" (q.v.).

Procurement, central. The process of acquiring materiel to meet consolidated department-wide requirements. Distinguished from local procurement. May or may not include procurement of requirements of other military departments; see procurement, coordinated.

Procurement, local. Procurement of materiel or services in the United States by an installation for consumption at the installation or its satellited activities or smaller stations; such procurement overseas is by a military command for consumption within the command area. (Distinguished from central procurement.)

Profit. The excess of the amount realized from sales of goods over the cost thereof in a given transaction or over a given period of time.

Program. (1) A plan or scheme of action designed for the accomplishment of a definite objective which is specific as to the time-phasing of the work to be done and the means proposed for its accomplishment, particularly in quantitative terms, with respect to manpower, materiel, and facilities, requirements. Thus a program provides a basis for budgeting. (2) A segment or element of a complete plan. (3) A budget account classification -- see budget program.

Property capitalized. In Defense: (1) The formal inclusion of materiel, work-in-process, or equipment, previously financed by appropriations, in a revolving fund so that the property constitutes an asset of the fund. /Reimbursement of the original financing appropriation is prohibited./ (2) The materiel, work-in-process, or equipment in a revolving fund.

Property in stores. Supplies and equipment in the storage and distribution system recorded as inventory or instock.

Provisioning. The process of determining the range and quantity of items (i.e. spares and repair parts, special tools, test equipment and support equipment) required to support and maintain an end-item of materiel for an initial period of service. It includes the identification of items of supply, the establishing of data for catalog, technical manual, and allowance list preparation and the preparation of instructions to assure delivery of necessary support items with related end-items.

Readiness acquisition objective. The quantity of an item for support of U.S. Forces, in addition to the "peacetime force materiel requirements," which is required to be in the supply system of a military service at the beginning of the wartime planning period as specified to attain approved logistics objectives.

Readiness acquisition stock. The portion of the quantity of an item in a military supply system designated to meet the readiness acquisition objectives.

Reapportionment. A revision of an annual "apportionment" (q.v.) during the fiscal year, either upwards or downwards.

Receivables. A collect[illegible] term used to describe amounts due or to become due from others, usually within a relatively short time. (The term excludes "investments" and "property held for sale" but includes such items as loans, taxes, or duties assessed and unpaid, credits extended for sale of property or other purposes, accrued interest, advances and reimbursements due from other agencies and funds.)

Reclama. (1) A presentation by an agency, requesting restoration of all or part of a reduction in a budget estimate made by a higher review level. (2) An appeal for reconsideration of any action.

Recurring demand. A request made periodically or anticipated to be repetitive by an authorized requisitioner for materiel for comsumption or use or for stock replenishment.

Report, financial. A formal statement, or series of statements, with or without narrative or exposition, showing financial condition at a given time or results of transactions or operations (other than military) for a given period, with or without comparison with budget estimates, standards, limitations, etc.

Requirements. (1) The need or demand for personnel, equipment, facilities, other resources, or services, by specific quantities, for specific periods of time or at specified times. (2) For use in budgeting, item requirements should be screened as to individual priority and approved in the light of total available budget resources.

Rescission. (1) A statutory cancellation or reduction of obligational authority under a previous appropriation or contract authorization. (2) A cancellation of any directive or authorization.

Resources, fund. (1) In the case of an "expendable fund," undisbursed balances of the applicable fund or fund subdivision; accounts receivable for revenues, reimbursements, and refunds; anticipated revenues, and reimbursements for the current budget-year; and advances to be returned or applied in liquidation of liabilities. Excludes tangible property -- both capital property and inventories of consumable materiel. (2) In the case of a revolving fund,

restricted to actual "assets" (q.v.) of the fund. In the case of a "working-capital fund," excludes "capital property" or fixed assets.

Revolving fund account. An account on the books of the Treasury in which are recorded receipts and disbursements pertaining to a specific revolving fund.

Sales. (1) The amount of proceeds realized or to be realized by the seller for goods or services furnished or to be furnished to the buyer. (2) Reimbursable issues at standard prices, or at standard prices less discounts allowed.

Spare parts. Individual parts, subassemblies and assemblies (components), supplied for the maintenance or repair of equipment.

Standardization program, Defense. The program established by law which requires the standardization of material, components, equipment, and processes with respect to items of supply and services approved for use by the military services to improve the efficiency and effectiveness of logistical support and operations readiness and conserve money, manpower, time, production facilities, and natural resources in the Department of Defense.

Stock. A supply of materiel maintained on hand at storage points in a supply system to meet anticipated demands for it. Items issued for actual use are not considered to be in stock. Syn. stores.

Stocks, centrally managed. All items of materiel in the supply distribution system of the owning service stored at wholesale or retail distribution points, but procured or distributed on a worldwide basis; excludes claimant stocks held for other services or government agencies.

Stock class. A subdivision of a stock group of the Federal Supply Classification. There are approximately 570 stock classes.

Stock, excess. The quantity of an item in a military service which exceeds the services retention limit for the item and is subject to utilization screening, reclamation, demilitarization or any other appropriate disposal action.

Stocks, reparable. Those items of supply which are not in a ready-to-issue condition, but may be economically restored to a ready-to-issue condition.

Stocks, retail. All stocks not included in the "wholesale-distribution system" which are necessary to be held and controlled by the individual military services for issue or resale to final consumers in performance of assigned missions.

Stratification, inventory. The record process of relating the inventory on-hand in the military supply system in such a manner that the inventory composition can be ascertained on a quantitative and monetary basis with respect to the purpose for which held; i.e., peacetime support stocks. readiness retention stocks, or other approved retention levels.

Supplies. Items in the Military Supply System which after issue are immediately "consumed" in use, or which become incorporated in other property, thus losing their identity.

Supply-demand control point. See inventory control point.

Supply-system. The organizations, offices, facilities, methods and techniques utilized to provide supplies and equipment to authorized users including requirements computation, procurement, distribution, maintenance-in-storage, issue and salvage of materiel.

Transfer between appropriation accounts. (1) An adjustment, pursuant to law, which withdraws amounts available for obligation and expenditure from one appropriation account for credit to another. Payments to other accounts for goods or services received, or to be received, shall not be considered "transfers". (2) The amount of such a transfer.

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